Contributions to a Marxist Theory of International Trade

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Preface

This volume presents the translation of the best analyses which Marxist authors made of international trade, the world economy, capital export and the balance of payments. Existing literature, Marxist or non-Marxist, solely on the topic of unequal exchange is quite large, encompassing many languages, yet it still lacks reference to pre-1945 economists who were pioneers in the Marxist theory of international trade. This book is an introductory sample of those 'forgotten' works, mostly taken from journals in the 1920s, on issues that still affect the political debate on trade today.

Our book is not merely a historical collection of writings (as for example the 10-volumes, edited by Robert Dimand, *The Origins of International Economics*, 2004). We order the chapters in our anthology so that it has a structure resembling a textbook for an international economics course.

The distinction of our volume compared with other modern textbooks on international trade is its starting point in a theory of value that holds labour as the basis of value. The concluding chapter by our co-editor Sandemose delves deeper into the meaning of this labour basis, or 'measure', of value. The first translated article of Dashkovsky (chapter one) was part of a 1920s debate on the concept of 'world economy', which, however, was not necessarily tied to the labour theory of value. In this volume it is chiefly chapter two (Dashkovsky), with its sections one and two, that deals with trade questions innate only to a labour theory of value.[1] Notably, as regards its originality, the chapter does not contain a single reference to Lenin, and criticises Marx.[2] Later chapters, such as six and nine[3] on foreign investment questions, again, are not explicitly tied to a labour theory of value.

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[1] Readers may skip over chapter one and jump directly to this easiest but most interesting part of the volume that elucidates the Marxist version of the labour theory of value.

[2] Lenin's early 1917 book (*Imperialism*) on the latest phase of capitalism dealt with capital export. Already two decades earlier, at the turn of the century, the negative connotation of the word 'imperialism' was widespread within the US (see Day and Gaido 2012, p. 8), but, of course, without the meaning that Lenin gave it as a special historical stage with three features: monopolistic, parasitic, and dying (*umirajuschij*) capitalism (see Lenin 1916, p. 105). Lenin's book, in section five ('Division of the world among capitalist associations'), in an unrivaled manner highlights the monopolistic aspect of capital-exporting companies (cartel-formation between multinationals), that is not really addressed by the authors of our volume.

[3]We thank Guenther Sandleben for his general discussion remarks of our volume's contents and encouragement, and also for obtaining a copy of this text (chapter nine: Zvavich 1928b). Special thanks go to Sebastian Budgen for the obtainment of rare writings (in particular the two chapters from the 1945 book by Frej) and support for this project from the start (late August 2017). It was an honour and pleasure to co-edit with Jørgen Sandemose, who approved of the selection of all our volume's essays, and wrote an original contribution in this volume (inspired by the second essay of Dashkovsky, and Petrov, but that goes into Marx's broader views, like the ontology of labour). We are saddened by his passing (September 2019) and apologise that we could not release this work at an earlier date. Our own essay (chapter twelve) was not viewed by Sandemose.

The writings collected in this volume do not fall under the classification of a separate Russian economics, or specific 'Eastern' Marxism. Their commonality is just their language (Russian) and date (roughly 1927–45). This is a practical justification to publish them together. Their authors were independent scholars.

We do not contextualise (or exoticise) our volume's authors' residence, namely the Union of Socialist Council-Republics, and only mention that historically, the Russian Empire itself had not exported much capital (beyond its borders).[4] Only chapter four exclusively reviews a 'Russian' book by Ignatij Granat, born in 1863 in Odessa (and not a member of a political party), yet precisely this book referenced an impressive amount of English (and other Western) literary sources. A line-up of several participants in the 1920s debate on the concept of 'world economy' is found in our introduction to chapter three (Petrov). Among them was, besides the above already named Dashkovsky, also Miron Spektator, whose publications had been mostly in German.[5] The backbone of chapter six (Kapelusz) is an American book on capital export. Vladimir Dokukin (author of chapters seven and eight) attended an American university. The author of chapter nine (Zvavich) studied in London. Chapter eleven (Frej) considers Frank Taussig, born in 1859 in St. Louis, and his Harvard student James Angell, born in 1898 in Chicago, among many other Western economists.

We present the essays in this volume thus as a part of the general discipline of theoretical economy, previously hidden by a language-barrier, until now.[6] There is no evidence of influence (or correlation) of these writings' arguments upon specific policies of trade.[7]

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[4] There is a 1921 Soviet document about debt repudiation of Tsarist loans furnished to Persia, but this might have been on reimbursement of occupation costs. Just before the war we find mention of Tsarist loans also to Mongolia. In the 1930s there was a Soviet interest-free 'loan' to Turkey for construction of factories, but this was delivery of equipment and engineering services on deferred payment. As to foreign trade, one could research questions like how much of it was in the hands of Russia's own private merchants (with their own shipping companies) or under government (Tsarist or Soviet) control, and so on.

[5] Born in 1880, after 1905 Spektator (Nachimson) did some German translations and wrote for *Die neue Zeit*. His book on public finances (*Die Staatswirtschaft. Eine kritisch-theoretische Beleuchtung*, Leipzig 1913) was translated into Japanese in 1932. His *Imperialism and Trade Wars* appeared in Bern in 1917. Also in German is volume one of *World Economy Before and After the War* (Berlin 1922), and *England in der Umwälzung* (Berlin 1925, translated in Russian the next year as *The Historical Crisis of English Capitalism*). He had been a member of the Bund (of Jewish Workers), wrote in the Menshevik newspaper *Luch*, and it seems he never joined the Communist Party although he published several more books in Russian, for instance *Struggle for Markets after the World War* (1934, 271 pages).

[6] Most of these writings are unknown to, or not referenced by, later (post-1930s) Russian scholars themselves. This obscurity is not a special plea to lower the standard in judging the scientific soundness of our collected writings.

[7] Petrov held a high position in the People's Commissariat of Trade, but it is even doubtful whether this ministry as a whole could set its own policy (it just being an instrument of higher government policy). If one believes that this bureaucracy had its own interests that it could defend, – for instance due to it being the connection to the foreign influence of businessmen, perhaps its personnel was ideologically less or even not socialist, – then one should look for indications that this ministry more than others lobbied to steer the domestic economy along capitalist roads.

Chapter One

Contribution to a Theory of the Development of the World Market and the World Economy[8] (1927)

Isaak Dashkovsky

This January 1927 article in the important Moscow-based *Pod znamenem marksizma* journal (*Under the Banner of Marxism*) differs slightly from its Ukrainian (January-March) version.[9] Throughout our English translation we will note these differences.[10] The title of the Ukrainian was shorter: 'World Economy and the Law of Value'. An abridged French translation dropped 'world economy' from its title.[11]

It constitutes the first part of Dashkovsky's article-series; for the continuation see our volume's chapter two.

Then, in May 1927, also in *Pzm*, an in-depth survey appeared of the views of Western bourgeois authors (and Karl Renner) on the concept of world economy.[12] Again, this is the reason we do not contextualise our translated essays in this volume as some isolated, distinctive debate.[13] There is a little overview of the general debate also in section four of the present Dashkovsky chapter. This concept drew increasing focus from Soviet theorists, lasting until about 1931.[14] For example, one participant disagreed with the definition given in the present article:

> [Dashkovsky] reduces the essence of the problem [of world economy] only to the relations of countries standing at different stages of development. We

[8] This article represents an excerpt of a work ready for print. [See continuation in the next chapter in this volume. Together Dashkovsky's article-series counts 86 pages (in Russian).]

[9] It is unclear if the Russian was the first one drafted. The idea for launching the Ukrainian (sister-)journal *Prapor Marksizmu* with its first contents was conceived in May 1926 (note by editorial board, p. 266), as a three-monthly, but problems delayed its launch. Also, the second issue appeared only a year later, in 1928.

[10] Although he wrote almost exclusively in Russian, we can assume that Dashkovsky was bilingual so the differences in the Ukrainian version are likely his own, and not due to alterations by a Ukrainian editor or translator.

[11] The translator was maybe Norbert Guterman, co-thinker of Henri Lefebvre, probably done without Dashkovsky's knowledge. In the same French journal also an article on American capital export by Y. (anonymous). It was sort of an affiliate of *Pzm*, which besides the Ukrainian, also had a German and Japanese sister-journal.

[12] Kapelusz 1927.

[13] For a survey of the views of some bourgeois (Western) authors on the more specific issue of capital export, see Grossman 2021, pp. 415–20.

[14] Dashkovsky's political repression barred him from responding (to Petrov's criticism in 1930), but others, including Spektator (not arrested until 1938), potentially could have continued the debate after 1931. As to bourgeois economists, still in 1931 Sartorius von Waltershausen published a history on the development of the world economy.

> cannot deny, of course, the fact that the most complex problems of international economy arise precisely on this basis; the specificity of international exchange and the world market is in a significant degree due to this situation, but, nevertheless, the problem is not limited therewith. Also in relations of countries standing at the same stage of economic development, specific problems arise that represent independent phenomena, having their own *raison d'être*, [that represent] a subject of independent research, not because, of course, we want to consider the world economy like it were a particular structure, as a number of representatives of bourgeois and Marxist political economy does, juxtaposing, for example, feudalism to world economy, but because we see within the problem of international economic relations only the specific form and dynamics of capital.[15]

Isaak Kal'manovich Dashkovsky (1891–1972) became in 1922 rector of Artem Communist University in Ukraine.[16] His course on political economy evinced 'complete theoretical range and strict adherence to orthodox Marxism'.[17]

Already in his *Market and Price in Modern Economy* (1925) chapters 14–20 dealt with; The development of the world market; Labour value and international exchange; The law of value and the international division of labour; World exchange and transport conditions; Free trade and protectionism;[18] Custom duties and their economic significance; Post-war trade policy of imperialism.[19] The Marxist writer

[15] Tsagolov 1930, p. 131. Tsagolov (1904–85), later an important economist whose books were translated in many languages (also spelled Zagalow, Cagolov).

[16] Named in honour of Fyodor Sergeyev 1883–1921 ('comrade Artjom'), in the then capital city of Kharkov. For comparison, the founding rector of the Sverdlov Communist University in Moscow was the Old Bolshevik Vladimir Nevsky.

[17] Review by Kapitonov 1924, p. 394. First edition had 316 pages, including addendum on new bourgeois economics. Second edition (1925) revised and expanded (422 pages), 15,000 printed. Its chapter 'The turnover of capital' was translated for the Communist University of the Toilers of China (KUTK). Georgian translation 1928, Tbilisi (see Greshenko 1991, p. 90).

[18] In our volume we excluded the topic of protectionism, which numerous Marxist writings were devoted to, for example Mender 1916 (232 pages). Fricis Menders (1885–1971), important Latvian Social Democrat (a Bolshevik in 1905). For a list of German socialist writings on trade policy, see Luwischczuk 1929.

[19] Dashkovsky 1925a, pp. 102–53. This book (227 pages) itself was not read by us. Presumably he pioneered some of his ideas on trade there first, but they remain distinct works. On a couple of pages (pp. 106–7) that we could access from the (1925) chapter on the development of the world market, he noted the importance also of exchange of finished goods between industrial countries themselves (so not just between agricultural and industrial ones).

Lucien Laurat read it.[20] Also, in 1925 appeared *World Capitalism and the Dawes Plan*.

The December 1927 issue of the above-named prestigious *Pzm*-journal still featured Dashkovsky's review of Granat, included in our volume. Dashkovsky was first arrested in Moscow in late 1927. A regular contributor to *Chozjajstvo Ukrainy* (*Economy of Ukraine*), pieces under his name still appeared up to the third issue of 1928.[21] Thereafter (1928–29) he published under the pseudonym Svetlov, for example a survey of a couple of issues of *Weltwirtschaftliches Archiv*, the journal founded in 1913 by Bernard Harms (nowadays *Review of World Economy*).[22] Or for instance an article on the tendency of the rate of profit to fall in the USSR compared to the capitalist world.[23]

Dashkovsky also taught at the Kharkov Institute of National Economy:

> The basis of the teaching staff at that time was made up of scientists of the pre-revolutionary [period of the] school, which contributed to the preservation of high academic culture and formed traditions of educational and scientific work. In the mid-20s, new professors joined the teaching staff, trained at KhINE; M.G. Yefimov-Maltapar, V.P. Akulenko [later mentioned in our volume], E.O. Kustolyan, A. Probst. [...] Political economy and socio-political disciplines were taught at the institute by famous representatives of Marxist

[20] Austrian-French communist (1898–1973), lived in Moscow in 1923–27. Wrote the brochure *L'impérialisme et la décadence capitaliste* in 1928. In a 1930 book (Paris) on Luxemburg's *The Accumulation of Capital* Laurat also dealt with some of her Russian critics.

[21] This journal's exact sub-title was: '*political*-economic journal' (as there exists another journal with the same title). The journal is not held in the West. We rely on an index of its first five years (Bojko 1929). Dashkovsky wrote seventeen reviews in it, one for example is of John Keynes' *A Tract on Monetary Reform*. In early 1925 an article on the Dawes Plan. In 1926 a short article on the economy of Germany during 1925–26. In an early 1927 article on the question of regulation and spatial-placement of industrial construction, he wrote '[T]he task of socialism is the destruction of the opposition between city and countryside, dispersion of industry throughout the whole territory of the country. It is clear that the transition economy should, to the best of its ability, move in the same direction from the center to the periphery' (p. 5, quoted). 'Ekonomika i technika' is a theoretical essay on the technical process and labour forces under capitalism and in conditions of soviet economy. In late 1927 on the question of industrialisation he polemicised on consumption in the plans (production, reproduction and the problem of effectiveness in soviet economy): 'You can't produce fabrics at chocolate factories or melt metal at a lace factory. ... In this dead apparatus, which we inherited from our predecessors, the power of yesterday over today is revealed' (p. 53, quoted). The general-theoretical article 'On Patterns of Industrial Development' ('O zakonomernostjach promyschlennogo razvitija'), 5 (1928), 3: 42–59, likely was a reprint from *Severo-Kavkazskij kraj* (monthly organ of the North-Caucasian regional planning commission) 1927, May-June: 3–18.

[22] An article by (later KPD-member) Alfred Meusel in this journal was on the issue of Marx's relation to List on foreign trade policy (see Meusel 1928). Meusel's article was criticised in Grossman 2021. In 1932 the journal had an article by Fritz Sternberg on the world economic crisis.

[23] Dashkovsky 1928a. Allegedly he spoke about a profit rate in the soviet economy also in Dashkovsky 1925a (its last chapter is on Soviet economy).

> economic science such as O.Z. Aleksandrov, I.K. Dashkovsky, M.M. Kryvytsky, D. B. Naumov, I.B. Ostroumov, S.M. Kramer, who were leading scientists of the Ukrainian Institute of Marxism-Leninism, the Artem Communist University, [and] the Kharkov Institute of Public Education.[24]
>
> In the early 1920s, the scientific activity of researchers of the Kharkov Institute of National Economy was also closely connected with the scientific-research department of Marxism and Marx-studies of the Ukrainian Academy of Sciences, headed by Professor S.Yu. Semkovsky. In 1921–22, the department operated an economic section headed by G.M. Levit and [then] I.K. Dashkovsky. At section meetings and department plenary meetings, discussions were held on a number of scientific reports. Greatest interest aroused with them the reports of G.M. Levit on the crisis of the world economy and I.K. Dashkovsky about the main features of the economic crisis in the republic; accounts were published.[25]

Also in Kharkov was the non-Marxist economist Mikhail Sobolev (1869–1947), who organised a volume on trade.[26]

The following note on Dashkovsky's life shows that he had no direct influence on foreign trade policy:[27]

Born in Mizinovka (today in Cherkasy oblast) to Jewish farmers,[28] Dashkosvky helped his parents in the household until fourteen years, and then went to Zvenyhorodka commercial school 1905–11, then three years Kiev Commercial Institute (now Kyiv National Economic University), and in 1915 Kharkov Technological Institute[29] (returns as lecturer during 1921–24). Supported himself as a train loader, census statistician, agent for a phonograph company and accountancy teacher (father died in 1910 and left no savings).

From late 1916 he began propaganda activity, in March 1917 joining the Bolshevik party in Kharkov. In the autumn he lectured on the history of the revolutionary

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[24] Ponomarenko 2005, pp. 53–4. See reference there (Lortikjan 1995, *Ukrainian economists of first three decades of twentieth century*).
[25] Ponomarenko 2005, p. 57.
[26] See Sobolev 1928. Though by then Dashkovsky no longer resided in Kharkov.
[27] Biographical data for this note come from Grechenko 1991.
[28] He was the eight child in a family of a '*ekonoma pomischits'kogo maetku*'. His mother was Chana Moiseevna.
[29] As he was conscripted, he did not obtain an academic title (and for his pension had, in his old age, to take exam, see Grechenko 1991, p. 94).

movement and economic issues at the Southwestern front, co-opted in the Bolshevik committee in Zhytomyr.

> Shortly before the October events, my public lecture "The Constituent Assembly and Power of the Soviets" was given at the local theater, in which I developed Ilyich's thoughts set out in the book *State and Revolution* that had recently been published [rather: *written*].[30]

He is in Saratov during May 1918 – February 1919, with the end of the German occupation of Ukraine returning to Kharkov, doing editorial work, until the arrival of Denikin's troops.[31] With the civil war politically active in the 13th and 14th Army, writing numerous articles, for example on Soviet policy toward Makhno. The editorial office of the newspaper *Red Warrior*, which he then headed, was located in Bakhmut.[32] Argued against Ukrainian independence (for that time) in March 1920 at the fourth congress of the Communist Party of Ukraine, which was dominated by the Democratic Centralist group ('Decists'). This was a left opposition faction inside the Bolshevik party. In 1921 in Donetsk, he defends the position on trade unions that is attributed to Trotsky. In the Donbas he is closely associated with Georgy Pyatakov, whose articles appeared in *Vserossijkoj kochegarka* edited by Dashkovsky.
On a scientific trip abroad in 1925.
Involved in internal party skirmishes, one of the signatories of the 'platform of 15' or program of the Decists, of whom he is the first to be expelled from the party on 7 September 1927, due to his polemical article ('Platforma 15-ti i ee kritik') sent to the Central Committee's journal *Bolshevik*.[33]

> However, even after the exclusion Dashkovsky did not stop political struggle, entering the all-Ukrainian centre of opposition. In particular, he presided over

[30] Dashkovsky 1926b, p. 72.
[31] The German troops entered Kharkov on 7 April 1918. In Saratov (Russia) he was active as chairman of the city and provincial committees of the RCP(b), and editor of the *Saratovskaja Krasnaja gazeta*.
[32] See Greshenko 1991, p. 89.
[33] The issue of his expulsion from the Party was considered by the Politburo three times: on August 25 by Molotov, September 8 by Nikolai Janson and 22 September. He was in person summoned before the Central Control Commission in Moscow on 7 September, whose decision the Politburo approved. For the stenogram of the 8 September meeting (with Trotsky's replies) see pp. 561–609 in Volume 2 *Transcripts of meetings of the Politburo of the Central Committee of the RCP(b)-VKP(b) 1923-1938*, edited by M.S. Astachov and others, 2007, Moscow: ROSSPEN. His article to *Bolshevik* was discussed a bit before, see p. 181, *Ob'edinennyj plenum TsK i TsKK VKP(b) 29 ijulia - 9 avgusta 1927 g. Dokumeny i materialy* volume 2, edited by I.I. Kudrjavtsev, 2020, Moscow: Politicheskaja entsiklopedija.

> the illegal meeting of oppositionists in Kharkov on the eve of the tenth anniversary of the October Revolution. Soon he was forced to leave Ukraine, for some time worked as a professor in the Department of Political Economy at the North Ossetian Pedagogical Institute in Vladikavkaz. [...] At the end of 1927, Dashkovsky left his job as professor at Vladikavkaz and moved to Moscow, where he lived in a semi-legal situation. He mentioned that the leadership of the opposition offered him to go abroad to establish contact with opposition groups in the Comintern, but he did not agree, opposing the course of creating a second party and the deepening of disagreements with the majority in the Ukrainian CP(b).[34]

First exiled to Tomsk. In internal exile Dashkovsky keeps correspondence with his fellow Decists, see his October 1929 letter to Timofei Sapronov.[35] He is arrested 10 December 1929. He is not readmitted in the Party in 1930, and in 1934 again sentenced (Krasnoyarsk prison and camps near Norilsk and Dudinka).

In 1941 Dashkovsky is allowed to work as a planner-economist in the artel 'Krasnyj kursant' in the village of Krasnaya Polyana, Kirov oblast. However, in 1949 with a new wave of Stalinist purges again in a camp near Bratsk. The last place of political imprisonment is near Tayshet (Irkutsk), where he lectures on the technological progress in the sixth five-year plan. Complete judicial rehabilitation in 1957, he returns to Kharkov at the age of 65, but not readmitted in the Party.

In 1959 he translates Roy Harrod's *Towards a Dynamic Economics* (1948).[36] In the mid-60s he wrote a substantial number of (unpublished) historical essays which are a scathing assessment of several works on Party history and a defence of Trotsky.[37]

His wife was Soybel Landa (1899–1988) with whom he had children.[38]

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[34] Greshenko 1991, p. 93 (our translation).

[35] Translation on libcom.org. A 20 April 1932 GPU report to Stalin quoted Dashkovsky's correspondence with the Trotskyist Victor Yeltsin on the economic situation (consulted at istmat.info, from *"Sovershenno sekretno": Lubjanka–Stalin o polozhenii v strane (1922–1934 gody)*, volume not cited, 2001–).

[36] Edited by Julij Jakovlevich Ol'sevich (economist, taught until 2016). In 1960 Dashkovsky translated Gerhard Hiller's *Gewinnbeteiligung der Arbeiter im Kapitalismus? Wesen und Ziel der Lohnaufgliederung* (1957, Berlin).

[37] A translation of Dashkovsky's essays is available to us. Perhaps extra-motivated due to his following experience: '[A]lthough he was a professor, he did not have a higher education. He, a well-known scientist, had to take exams at one of the Moscow universities *in the history of the CPSU*, political economy, and so on, in order to receive a diploma. In 1958, he was awarded a pension based on his professorial title' (Grechenko 1991, p. 94, our emphasis).

[38] It seems he had two earlier marriages; in 1914 to Anna Vasenina, and then to Ljubov' Borisovna Tschernomorskaja with whom he had a son, Artjom.

Although the mid-1920s writings of Dashkovsky are the first extensive discussion of Marx's theory of international trade, the earliest (brief) discussion of Marx's theory was in 1904 by Miklaschevskij, in a forgotten nearly 500-page book.[39] Miklaschevskij's book located the classical school's weakness in its theory of international exchange, in short, the fact that due to differences in labour productivity, unequal amounts of labour exchange between countries, which supposedly conflicts with the labour theory of value. He first numerically adjusted, in accordance with an equivalent exchange of labour, a Ricardian model (France and England expending different amounts of labour days on the production of a determined quantity of wine and coal).[40] In this 'superficial' numerical example both countries would benefit, so international trade is possible under equal exchange of labour, but they would save labour to a different extent, and such division of the advantage is unlikely to happen. Miklashevskij constucted an alternative (more probable) numerical example, where both countries save labour to the same extent, without full specialisation. His point is that there occurs an inequivalent exchange of labour. It is not clear if this is meant as a criticism of Ricardo – some seem to stress this was precisely Ricardo's own point,[41] – that trade would be advantageous, despite a violation of labour equivalence.

Miklaschevskij then expressed (presumably two) critical remarks on a passage from *Capital*,[42] judging that Marx, though apparently acknowledging the (temporary) fact of unequal exchange of labour, did not advance beyond Ricardo's so-called law of

[39] Aleksandr Miklaschevskij (1864–1911), economist, author of numerous writings and translator of classical economists. His 1909 *History of Political Economy* (638 pages) contains a (critical) section on Marxism (pp. 492–559).

[40] See Miklaschevskij 1904, pp. 32–6.

[41] '[T]he real purpose of [Ricardo's] numerical example is to illustrate the new proposition [scarcely mentioned in the prolific economic literature about comparative advantage] that the law of value for domestic transactions — and therefore his labor theory of value — does not hold for international exchanges. Hence, one cannot rely on the labor theory of value as a valid guide for the determination of international prices under the condition of immobility of the factors of production' (Meoqui 2011). In later articles we vaguely pick up from Meoqui's argument about John Stuart Mill's misunderstanding of Ricardo on foreign trade, that this might be due to Mill's misrecognition of the difference between values (constant capital + variable capital + surplus value) in the strict sense and (what Marx calls) prices of production (constant capital + variable capital + general rate of profit). Mill failed to see that Ricardo on foreign trade has in mind commodities' prices of production (and not values in the strict sense), which means that even if a commodity has the same value in two countries, its price of production will be different (unequal) in the two, because the countries have different general rates of profit. But this is not because their value would be unequal. We let the readers follow the evolution of Meoqui's research for themselves though. '[T]he logic of the numerical example rests on the assumption that [the general rate of] profits were higher in Portugal than in England', and so contrary to the myth, Ricardo did not assume that Portugal's productivity was higher than England's (see Meoqui 2023).

[42] 'The law of value is yet more modified in its international application by the fact that, on the world market, the national labour which is more productive also counts as the more intense, as long as the more productive nation is not compelled by competition to lower the selling price of its commodities to the level of their value' (Marx 1976b, p. 702).

comparative cost, often praised – unjustly in Miklaschevskij's view – as a great achievement in political economy:

> But [firstly], can competition cause such a phenomenon that in international exchange the selling price of a commodity of the more productive country is lowered to its value, and [secondly] what is the meaning of this phrase, what force does competition display here? Does not Marx assume the [eventual] possibility of that superficial conclusion [as in our numerically adjusted model] when 100 days of an Englishman exchange for 100 days of a Frenchman?
>
> Let initially 100 days of more productive labour exchange for 150 days of less productive labour. If competition [somehow] equalises the exchange and 100 days will go for 100 days, then under the influence of international exchange there occurs a strong modification [*vidoizmenenie*] of "absolute labour value". Suppose this exchange characterises the whole of national foreign trade of commodities, then for the first country the *whole value* declines by fifty per cent, while for the second it rises by fifty per cent. But if that is the influence of competition in relation to labour of higher productivity, then it is to be asked whether by the same principle it is not possible that under the influence of competition "*more intensive*" *labour equalises* "*to less intensive*" *labour*? [...]
>
> A mechanical equation of 100 days to 100 days shows only that a country of less productivity can obtain under certain circumstances one day of labour of greater productivity, but it does not show in what *ways* this can occur, [it] does not clear up what relation such different productivity has to the problem of the value or price of commodities.
>
> [... T]he question is whether Marx in any way pushed forward the resolution of the issue, or whether the "great discovery of Ricardo" [namely his law of comparative cost] already resolved the whole issue and science has not taken a single step forward [since Ricardo].[43]

But that question will be addressed in chapter two.[44]

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[43] Miklaschevskij 1904, pp. 37–8, our emphasis.

[44] In our footnote in chapter two we will further quote from Miklaschevskij, where he nevertheless approvingly cites Marx to criticise Ricardo. See also section five of our essay (chapter twelve).

The subsections of Dashkovsky's present article did not have a title. The Russian version has four subsections (the Ukrainian five). We tentatively name them;

1) A general theory of world market (lack thereof);

2) Marx's views on its development through the contradiction between use-value and exchange-value of commodities (; + creation of world division of labour);

3) Marx's views on its development through the contradiction between production and consumption (realisation);

4) Definition of external market, and on world economy as a distinct concept.

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1.

The *world market* and the *world economy* are the most fundamental and dominant facts of modern economic life. This is observed in countless written works devoted to the recent history of the economy and its modern situation. Even those authors, who, like Sombart, tend to defend the paradoxical idea that 'the single national economy increasingly is becoming a completed microcosmos, and [that] for all industries the internal market gradually outweighs in significance the foreign market',[45] nevertheless, have to recognise that an essential condition for the growth of the domestic market is the 'permanent and continuously extending expansion of world economic relations'.[46]

The development of international economic relations is a kind of dialectical process. As is known, exchange and trade historically occur 'where communities have their boundaries'.[47] International, intertribal trade is the starting point of the development of exchange, with which also capitalist economy develops.[48] Later on, capitalism gradually clears for itself the

[45] Sombart 1921 [1903], p. 387. [For a critique see Zvavich 1933b, which also looked at the situation after the war and 1929 crisis, when ideas of autarchy spread (geopolitical *Großwirtschaftsraum*, or British Imperial Economic Unity).]

[46] [Even NSDAP economist Bruno Kiesewetter devoted in 1944 a book to the topic of the world economy: *Grundlagen und Wandlungen der Weltwirtschaft: eine Darstellung der ideellen und funktionellen Zusammenhänge weltwirtschaftlicher Austauschbeziehungen* (Berlin).]

[47] Marx 1976b, p. 182. [See also Marx 1987b, p. 245.]

[48] 'World trade and the world market date from the sixteenth century, and from then on the modern history of capital starts to unfold' (Marx 1976b, p. 247). [Marx mentioned that real subsumption of labour under capital, that is the 'specifically capitalist *mode* [our emphasis] of production emerges, under otherwise favourable historical circumstances, such as those of the 16th century, although it of course [*natürlich*] may appear *sporadically* at isolated points, not as dominating over society, within earlier forms of society' (Marx 1994, p. 427). It follows that for Marx the existence of formal subsumption of labour under capital (a non-capitalist mode of production that belongs to the capitalist *process* of production) occurs in even earlier (and more)

required 'field of exploitation' within the country, disintegrating the remnants of the natural order, paving the way for a commodity economy throughout and transforming the latter into a capitalist economy. During this period there occurs an intensive 'formation of the home market' for capitalism. When this work is done with sufficient depth and breadth, the turn of international exchange arrives again, no longer on primitive foundations, but based on large-scale production and machine technology. Capitalism 'pulls' all nations into the world economic orbit one after the other. The epoch of world economy arrives.

As troubadours of this international exchange act always economists of those countries which occupy a dominant position in the world market. Because the era of development of bourgeois political economy coincided with the dominance of England in the world market, it is entirely natural that the theory of the classics became the fighting banner of bourgeois 'cosmopolitanism', which essentially was the only adequate form of expression of the national interests of British capital.

In the development of the 'cosmopolitan' theory two stages can be mentioned: the first period associated with the names of Smith and Ricardo, characterising the predominance of the interests of international *trade* in the strict sense, that is in terms of export of *commodities*. Praising the benefits of international exchange, both Smith and Ricardo negatively related to the tendency of transfer of capital and entrepreneurship abroad.[49]

But in relation to this already John Stuart Mill takes a step forward, pointing out that capital export is a powerful force for expanding the field of employment of remaining capital. 'It may be said truly that, up to a certain point, the more capital we send away, the more we shall possess and be able to retain at home'.[50] This evolution of the classical theory was closely related to changes in the economic environment. From export of commodities British capital turned, after the Napoleonic Wars, to the export of capital.[51] The pursuit of higher profits got the better over 'attachment to the fatherland', and Mill only registered a *fait accompli*. True, he has not yet completely done away with the old ideology and asserts the benefits of capital export by the consideration that the export contributes to the increase of the amount of

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forms of society, than real subsumption.]

[49] [For instance: '[C]apital will be exported to be employed in those countries where food is cheap and profits high. All European colonies have been established with the capital of the mother countries, and have thereby checked accumulation' (Ricardo 1962, p. 16, note). A couple of possible instances in Smith are; Smith 1909, pp. 317–8; Smith 1814 volume 2, pp. 423–4 (not in 1909 edition). Whether the classics had in mind capital export in the strict sense (foreign direct investment) is a point we touch in section five of our essay.]

[50] Mill 1909 [1848], p. 739. [Earlier in Torrens 1835, pp. 262–3 (see in general pp. 229 and following). Torrens's book is quoted in Merivale's *Lectures on Colonization and Colonies*, which Marx excerpted in 1851. On the redundancy of capital in England, see Torrens 1828, pp. 10–15.]

[51] [Compare Kapelusz 1928 in the present volume.]

capital remaining in the fatherland. But this was already a simple tribute to prejudices, from which the later generation of economists managed to entirely escape.[52]

In the theory of international economic relations as well as in all other matters of political economy, the classics remained true to their main method – to issue the specific laws of bourgeois economy to a *natural* order of things, to a pre-established harmony. The moving force of the development of world trade they saw in the *material conditions* of production, and not in the social form which they take under capitalism. International trade spreads the scope of the *division of labour*, increasing labour's productivity.

Growth of productivity is a mere consequence of technical factors – the division of labour, which therefore is the most *natural* order of things. Natural laws inevitably must forge a way through the artificial barriers created by the wrong policies of social organisations – the State, and so on. Therefore, the development of international trade is inevitable.

From the natural order of things proceeded, incidentally, also a prominent opponent of the classical school on the continent of Europe – Friedrich List. But he, in contrast to the classics, argued that the greatest economic benefits are obtained not from the division of labour between countries, but from the conjunction of labour within the same country, in particular from the conjunction of industrial and agricultural production. A clear case of how the meaning of 'natural laws' is modified when they need to express opposing interests of different bourgeois groups, in this case the bourgeoisie of England and Germany in the first half of the nineteenth century. True, also List did not depart from 'cosmopolitanism' in relation to the more or less distant future, when circumstances will allow competitive struggle. He too considered it necessary to flirt with 'common-humanity' considerations. 'That the civilisation of all nations, the culture of the whole globe, forms a task imposed on the whole human race, is evident from those unalterable laws of nature by which civilised nations are driven on with irresistible power to extend or transfer their powers of production to less cultivated countries'.[53]

'Natural laws' unconsciously for their interpreters spoke in the purest language of bourgeois categories in those cases, for example, when the benefits of international exchange were maintained by arguments on the profit rate or the wage. But since these [latter] categories in the representation of bourgeois economy had 'antediluvian existence', then thereby the forces of development of the world market appeared independent of any form of social organisation. They were rooted in the 'immutable laws of nature'.

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[52] [The theme of capital export will not be discussed in this chapter though.]

[53] List 1909, p. 102.

In his comments on Ricardo, Diehl correctly notes that 'Ricardo's ideas about foreign trade policy are closely connected with his theory of the distribution of the national income; he is for free trade, because it has a favourable influence upon the distribution of wealth inside the national economy'.[54]

Only Marx put the question of the world market on a real scientific ground. He showed that the creation of the world market was not a function of 'laws of nature' as such, but a *function of capital*, and moved, in this way, study on the ground of *social* laws, peculiar to a *determined era*. 'What is Free Trade under the present condition of society? – Marx asks. – Freedom of Capital. When you have torn down the few national barriers which still restrict the free development of capital, you will merely have given it complete freedom of action'.[55] And further, revealing the essence of protectionism, Marx finds it in a strong growth, despite the apparent opposition with the system of free trade:

'The Protective system is nothing but a means of establishing manufacture upon a large scale in any given country, that is to say, of making it dependent upon the market of the world; and from the moment that dependence upon the market of the world is established, there is more or less dependence upon Free Trade too'.[56]

In this way both seemingly mutually exclusive systems of economic policy lead, according to Marx, to the same result: the expansion of the scope of capital's activity, the expansion of world economic relations.

A theory of the world market had no fortune in Marxist literature. Marx himself intended to devote a significant part of his research to the analysis of foreign trade, world market and world economy. He mentions this in the first lines of his *A Contribution to the Critique of Political Economy*: 'I examine the system of bourgeois economy in the following order: capital, landed property, wage-labour; the State, foreign trade, world market'.[57] The incompleteness of *Capital* is reflected precisely in the last three parts of Marx's plan. In particular the theory of international economic relations is represented there only in the form of passing remarks, which, however, are themselves of enormous scientific worth and allow in general outlines the construction of a system of Marx's views on this question.

Regarding post-Marxian economic literature, although also a lot of attention was and is paid to questions of world economy, a *general theory* of international exchange remained poorly developed. The dispute about the importance of foreign markets for capitalism between

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[54] Diehl 1905, p. 326. [This paragraph is not in the Ukrainian version.]
[55] Marx 1976a, p. 463.
[56] Marx 1976a, p. 465.
[57] Marx 1987, p. 261.

Marxists and Narodniks, renewed in our days around the theory of Rosa Luxemburg, revolves mainly around the *problem of realisation*, or the complication of specific questions of modern imperialism, involving the highly advanced monopolisation of important sectors of the world economy, the strong influence of 'supra-economic' factors and so on, conditions interfering with the economic laws of capitalism 'in its pure form'. Meanwhile, without a 'pure theory' of the world market one cannot understand the real interweaving of global economic phenomena, just as without a 'pure theory' of commodity and capitalist economy one cannot understand the general course of economic life, the interrelations of classes, and so on. The theory of 'realisation' is only a *part* of this pure theory. The question about realisation of surplus-value cannot be separated from the question about *prices*, for it is only through prices that potential surplus-value is converted into real profit. It is impossible to understand the formation of price in international exchange, without having a general theory of international exchange, and international exchange is part of a wider field of international economic relations (including the migration of capital, the so-called 'exchange of services',[58] the movement of labour forces, and so on). In short, here is an untouched region of theoretical research, in which Marxist science has made only first steps.

The lack of a developed theory in this domain is shown first of all in the deficient research of the reasons for the emergence of the modern world market and its development. Hitherto in the literature which with some reserve can be called Marxist, views figured, according to which the development of world economy is not a specific function of the capitalist form of economy, but the result of the 'redistribution of productive forces' caused by 'the law of decreasing productivity'.[59] In essence this is a return to the classical school.

Neither found hitherto is a determined attitude towards the existing classification – 'single [or individual] economy', 'national economy', 'world economy'.[60]

We begin therefore with an attempt to systematise on these questions Marx's views, which provide rich material especially on the first question, so that on the basis of the extracted results a more confident navigation is possible in essential questions of international exchange.

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[58] [Probably from the German term *Leistungsverkehr,* current transactions. This would be grouped with invisible earnings.]

[59] See Maslov 1923. [This book's last two chapters – 'Tendency of the formation of a world economy' and 'Redistribution of productive forces between different countries' – are reprints from Maslov 1910.
A line in Petrov's book (1929a) was criticised for holding a 'naturalist' view like the classics on the international division of labour and foreign trade (by countries' natural differences) by Kachuriner 1931, p. 142. Evgenija Kachuriner (Kaplan), 1898–1962, joined Party in 1917, arrested in 1937, rehabilitated in 1955.]

[60] [This sentence (and subject matter) is what is left out of the abridged French translation of Dashkovsky's text.]

2.

First of all, to a formulation of the question. Analysis of the conditions of the development of the world market, properly speaking, is a matter of economic history, which must take the question in all its concreteness. In such a formulation the history of the world economy arises together with the history of capitalism, which originated on a determined historical ground, and not at all as the result of some kind of 'self-deployment of world reason'. But we are interested here not in the history, but the *theory* of the problem, that is we need to find the *specific* features of capitalist economy that prompted the world expansion which led to the world economy. Herewith we again stay on the ground of 'pure capitalism', not 'defiled' by monopolies, imperialism and other such fruits of sinful reality. Of course we regard this only as a methodological approach, as a first approximation to the problem.

Speaking about the development of the world market and the world economy, as one of the specific functions of *capital*, we do not at all counter-pose this statement to another proposition, according to which the emergence of the world economy is the result of the influence of material, technical, geographical or, generally speaking, *natural* factors. In the final light also capitalism itself, if one consistently descends to its historical roots and origins, includes among its driving forces 'natural' factors. But these factors affect social development only *through determined forms of social relations*. The more significant works of bourgeois economic thought, dedicated to issues of territorial allocation and territorial connections of the national economy – the works of Thünen in the domain of agriculture and of Alfred Weber in the domain of industry, precisely gave serious result because they did not *limit* analysis to the material elements of the economy.[61] Thünen studies the dependence of the allocation of agricultural cultivation on conditions of *market exchange*. Weber emphasises the impact of the *capitalist* form of economy on the allocation of industry, for example, in the domain of the so-called 'worker orientation' of businesses, the impact of rent relations and so on. We already do not mention that the very *possibility* of the formulation of the problem of rational allocation of branches of the economy demands, as a precondition,

[61] [Thünen 1966; Weber 1909. Review of the latter see Dashkovsky 1926a. The economic-geographer Iljas Alkin (1895–1937) criticised Thünen and Weber (see Alkin 1931, pp. 80–1). The title of his book, *Central Asia*, would not suggest it, but in its first 130 pages or so Alkin in fact treats fundamental questions of Marxist theory as concerns economic geography. An article by El'skaja (1923) is credited with being the first attempt (in Russian) from a Marxist viewpoint at a methodology of economic geography (see Konstantinov 1926, pp. 72–4).]

the full penetration in economic life of the law of value and commercial calculation, characteristic only for a determined stage of development of social forms.

That is why we start with an analysis of the impact of these forms and their respective economic categories. In this way we will more truly reach also to the 'natural' factors and be able to establish their rightful place in economic processes.

The most general 'cause' is already found in the contradiction of the commodity form of the product. Commodity production is based on the bifurcation of products of labour by the line of use-value and value, wherewith the latter takes exclusive importance for capitalism. Capitalism first introduced on a large scale in economic life the *rational* principle, in Sombart's definition, the ability to *count*. But a comprehensive economic account is conceivable only in abstract units, which must reduce the whole variety of commodities of the world to a common denominator. The ground for this was prepared together with the advent of the abstract form of wealth – money, the incarnation of the general form of value. But value itself in its counter-position to use-value, could develop only there, where the product of labour was definitely turned into a commodity *sans phrase*, in an at all points alienated thing, and this was made possible only through the expansion of the foreign sphere of exchange. 'It is in the world market that money first functions to its full extent as the commodity whose natural form is also the directly social form of realisation of human labour in the abstract. Its mode of existence becomes adequate to its concept'.[62]

If the simple fact of the bifurcation of the commodity into use-value and value already pushes towards this expansion of the foreign market, a fact common to both simple commodity and capitalist economy, then the trend to expansion must be given all the more significance in a proper capitalist economy, where the specific problem arises of the production of *surplus-value* as an end in itself. In simple commodity economy the product of labour was still connected directly with the producer to who it belongs, and with the consumer, inasmuch as the latter acquires it to meet his needs. The useful form of this product, its use-value retains still its entire meaning under exchange.[63] By contrast, under

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[62] Marx 1976b, pp. 240–41.

[63] ['In a simple commodity economy, the exchange process involves a relatively narrow circle of people. The market is therefore much easier to survey and to take into account its needs. In addition, the sale of surpluses of own production prevails here, which is not of decisive importance for the fate of the economy. If it is impossible to sell, the surpluses are stored until more favourable times, and production is carried out in its own order. This is not the case under the conditions of a capitalist economy. Here, a huge amount of capital and people are involved in market turnover. Here exclusively reigns the production for sale. Any hitch in sales entails the inability to continue the process of even simple reproduction, not to mention expanded. Therefore, crises manifest themselves in their most general form only under the conditions of capitalist production' (Dashkovsky 1923, p. 251). The critique, which Dashkovsky later repeats, directed against Say and Ricardo, faults these classics by implication, though, for not grasping even simple commodity production. '[They] return not only to the time before capitalist production, but even to the time before there was simple commodity production [*Es*

capitalism, where the primary purpose of buying and selling is the simple continuous production and increase of value, as such, the form of the product, its useful properties become indifferent. For the industrial capitalist the use-value of his commodities is only an unavoidable 'evil', inasmuch as without these properties value and surplus-value cannot be realised. For the *capitalist buyer*, inasmuch as he acquires *means of production*, the useful properties of purchased commodities are again not considered in terms of meeting needs, but in terms of their suitability for the production of value. Only in this sense the capitalist pays attention to quality and properties. The dominance of the abstract form of wealth over the particular, the dominance of value over use-value, surplus-value over value, all these characteristic features of capitalism can, however, get their full development, if there is a continuous *growth of the variety* of commodities circulating on the capitalist market. A peculiar contradiction has effect here, in that in the same society where needs are subordinated to the production of value and surplus-value, the most significance is acquired by the *variety of commodities*, serving the goal of satisfying the ever-growing diversity of demands. 'If surplus labour or surplus-value were represented only in the national surplus product, then the increase of value for the sake of value and therefore the exaction of surplus labour would be restricted by the limited, narrow circle of use-values in which the value of the (national) labour would be represented. But it is foreign trade which develops its real nature as value by developing the labour embodied in it as social labour which manifests itself in an unlimited range of different use-values, and this in fact gives meaning to abstract wealth'.[64]

The greatest uniformity of needs, the greatest uniformity of products serving their satisfaction, thus dominates there, where the principle to serve needs is the basis of economic life in primitive natural economy. Conversely, there where production ignores needs, the latter most loudly assert their rights and demand an ever-larger dose of 'differentiation' for increasing the forces of sensation.

The growth of the diversity of demands and means to meet them may happen in extensive and intensive order, which intertwine among themselves. Usually, new demands appear first under the impact of contact with the foreign environment, which delivers unknown or rare for such time products. The development of capitalist technology, emerging precisely on the

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wird nicht nur hinter die kapitalistische Produktion, sondern sogar hinter die bloße Warenproduktion zurückgegangen]; and the most complicated phenomenon of capitalist production—the world market crisis—is flatly denied, by denying the first condition of capitalist production, namely, that the product must be a commodity and therefore express itself as money and undergo the process of metamorphosis' (Marx 1989b, p. 132).]

[64] Marx 1989b, pp. 387–88.

basis of exchange with the foreign world, then increases the variety of products with the help of the own resources. Here one can observe a network of the most complicated interactions. The increasing diversity of consumer commodities, going hand in hand with intensification of needs, enhances the field of exchange and the expansion of labour processes in all sorts of shapes and forms. Therewith, as exchange proliferates in depth and breadth, ever greater masses of people are pulled out from a situation of local restrictions, are involved in the levelling circulation of capitalist production, which *levels* their habits, tastes, needs and means to satisfy them. On this ground grows *mass* production, which supposes a more rapid growth of *technology* and ever-increasing frequency of *changes* therein. But frequently changing technology by itself already creates extremely fragile and fickle demand. (The most stable character of life existed only in the Middle Ages, with its domination of tradition and guilds in craft production). Thus grows the intensity of *exchange* within a given socio-economic unit, advancing at the same time an even more intense *production* of commodities.

The necessity of their sale pushes, in its turn, to the search of foreign markets, to the artificial introduction of products of the civilised world among backward peoples.

In any case, *territorially* different spheres of commodity economy are on the one hand a necessary *condition* for the emergence and development of capitalism, on the other, are capitalism's *result*. It finds its natural scales in the 'limits of earth'. Still in 1858 Marx believed this process to be roughly finished, although subsequent facts showed, that it was the beginning and not the end. 'The proper task of bourgeois society is the creation of the world market, at least in outline, and of the production based on that market. Since the world is round, the colonisation of California and Australia and the opening up of China and Japan would seem to have completed this process'.[65]

The ever-growing variety of 'wealth, seeking pleasures', the variety of consumer values presupposes a variety of spheres of production and hence a comprehensive supply of capitalist society's means of production. Hence the ever-increasing demand for raw materials, both for the established branches, requiring continuous increase in the number of raw materials, as well as for new types of industrial activity, for which the necessary raw materials must be specially cultivated.

The expanding sphere of exchange resolves also this issue. Thanks to it, capitalist production and capitalist accumulation become *completely independent of the natural forms of products of labour of a given country and transform into pure production of value*. That is

[65] Marx 1983a, p. 347.

why Marx considers it permissible, when analysing the circulation of social capital, to distract from foreign trade.

Thanks to foreign trade, capital accumulation in a country may occur in *any material form*: the country can prosper exclusively on production of luxuries, though in themselves these items not only cannot promote the growth of production, but, on the contrary, in most cases represent a simple waste of productive forces. This defining fact exists in many countries, which are representatives of so-called *monoculture*. 'It determines the whole social pattern of backward nations – for example, the slave-holding states in the United States of North America (see Cairnes) or Poland, etc. [...] – which are associated with a world market based on capitalist production. No matter how large the surplus product they extract from the surplus labour of their slaves in the simple form of cotton or corn, they can adhere to this simple, undifferentiated labour because foreign trade enables them [to convert] these simple products into any kind of use value'.[66]

Such 'monoculture' is linked by its existence to capitalism not only in the sense that it forms for it a sales market, but also in another respect.

> By constantly turning workers into 'supernumeraries', large-scale industry, in all countries where it has taken root, spurs on rapid increases in emigration and the colonization of foreign lands, which are thereby converted into settlements for growing the raw material of the mother country, just as Australia, for example, was converted into a colony for growing wool. A new and international division of labour springs up, one suited to the requirements of the main industrial countries industry, and it converts one part of the globe into a chiefly agricultural field of production for supplying the other part, which remains a pre-eminently industrial field. This revolution is linked with far-reaching changes in agriculture [...] The economic development of the United States is itself a product of the large-scale industry of Europe, or to be more precise, of England. In their present form (1867) the United States must still be considered a European colony.[67]

True, it was a peculiar colony, against which in short time the European metropolis had to defend itself with the introduction of a series of protective duties on American products. To

[66] Marx 1989b, p. 378.
[67] Marx 1976b, pp. 579–80.

raise, in the expression of Parvus, a 'rebellion' against its colonies. Nevertheless, capitalist development of the United States is a prime result of European capitalism.
Maslov, following his *idée fixe* – the 'law' of falling labour productivity in agriculture, depicts this process in his own way:

> In the world economy the redistribution of production forces occurs in the following way – given that a sparse population acquires a high labour productivity, then from there the export of agricultural products begins. There, where there is a denser population, there is low labour productivity and agricultural products are imported to there. Since labour productivity determines the cost of production, a manufacturing industry develops there. Meaning, under the partition of the world economy, a redistribution of productive forces on the world market occurs, under which from sparsely-populated areas grain begins to come on the world market. Herewith is noticed the tendency, that the delivery on the world market, mainly of cereals and livestock, increasingly moves away from the world market.[68]

According to Maslov the very emergence of manufacturing industry in densely-populated countries is the result of the fall of productivity of agricultural labour in them. The migration from these countries into colonies is influenced by absolute overpopulation, because the means of existence grow slower than the number of workers employed in agriculture. We do not have to dwell on the fact that this theory resembles as two peas Malthus' theory, from which Maslov in the same book takes distance *in words*, that it has nothing in common with Marx's theory of population. It is pertinent to merely ask the following question: if in countries with dense population a decrease of labour productivity occurs, then from where is the capital there taken to create and powerfully develop the processing (as well as mining, for example coal) industry? And why do these countries of 'low productivity' find the possibility to export their excess capital to where, already without this, the land flows with milk and honey? Presuming to create his theory of the world economy on the basis of the notorious 'law' [of diminishing productivity], Maslov completely ignores such essential facts of the world economy, for example, as *immigration* into countries of high population, labour forces for work in industry, as well as the export of agricultural products from highly

[68] Maslov 1926, pp. 19–20. [Maslov (1867–1946), prolific writer, in 1896 on the editorial board of *Samarksij Vestnik*, the first Russian Marxist journal (for example published chapters from Kautsky's *The Class Struggle (Erfurt Program)*. Menshevik, see writings of Lenin. Kautsky criticised him in a 1911 series on Malthusianism in *Die neue Zeit*. Academic in the USSR. Already criticised in Dashkovsky 1923.]

populated agricultural countries (from India, for example), and so on. The theory of falling productivity must inevitably lead Maslov to the Ricardian viewpoint, according to which capital is exported from the country of lesser labour productivity to the country of greater labour productivity, mixing the law of the falling rate of profit with the fall of the 'productivity of capital'. This is the inevitable result of the neglect of social forms in the analysis of social phenomena. To these issues we hope to return in the next article.[69]

In order to compensate its products with products of another material form, capitalism does not at all require that these latter were necessarily made by capitalist methods. It finds and takes them in any sphere, under any socio-economic formation. A huge mass of raw materials and other materials for capitalist production still is delivered by the non-capitalist sphere, the 'third person' [in Struve's terminology]. These products are converted into capital already after their disposal into the hands of the capitalist. Inasmuch as capitalist industry demands constant renewal of these stocks, it thereby *falls into the well-known dependence on this non-capitalist sphere*.

> [T]o this extent the capitalist mode of production is conditioned by modes of production lying outside [*unterhalb*] its own stage of development. Its tendency, however, is to transform all possible production into commodity production; the main means by which it does this is precisely by drawing this production into its circulation process; and developed commodity production is itself capitalist commodity production. The intervention of industrial capital in the world market everywhere promotes this transformation, and with it too the transformation of all immediate producers into wage-labourers.[70]

As is known, Rosa Luxemburg gave a brilliant illustration of this process by which the 'introduction' of underdeveloped countries to the benefits of capitalist civilisation occurs. However, the conclusions of Marx are the direct opposite of Luxemburg's. Liquidation of the non-capitalist environment should, according to Luxemburg, place capitalist society in the impossibility to exist. By contrast, for Marx regarding the sustenance of the capitalist production process by products of the non-capitalist environment, the decomposition of the

[69] [Meant is chapter two in this volume (maybe touched in its last section), but perhaps compare later in our chapter four.]
[70] Marx 1978, p. 190 [the phrase 'in the world market' restored].

latter, its transformation into a capitalist sphere provides a more *regular reproduction* of raw materials than is reachable in pre-capitalist forms of economy.[71]

The inclusion of all countries in the network of world exchange presupposes, of course, an international division of labour. It is known what importance free-traders attached to free trade, which should give each country the possibility to focus on the production of those commodities for which it has the most favourable natural conditions.

As in other areas of the economy, also in the domain of the division of labour bourgeois economy sees, firstly, the natural expression of human nature, and secondly, the intervention of absolute reason. Adam Smith, for example, the first to systematically investigate the question of the division of labour (in manufacture), understood the connection which exists between the degree of the division of labour and the size of the market, but nevertheless as the final cause put forward the 'propensity in human nature to (for example) exchange'.[72]

The nature of bourgeois society was declared, in this way, a model natural character. Not far from Smith went also later economists, including Friedrich List, who, based on the same general requirements of human nature, pointed to the particular importance of the problems of *conjugated* labour, industrial and agricultural, within one and the same country. Marx approached the issue of the division of labour from a historical perspective, linking it with the bases of the capitalist mode of production. First, he pointed out that the division of labour does not constitute in itself something permanent, but changes together with altering economic conditions. Craft division of labour does not resemble manufacture, manufacture does not resemble the division of labour in the era of mechanised production. 'The development of the division of labour supposes the assemblage of workers in a workshop'.[73] But such assemblage already supposes capitalist production. Thus, the 'progress' of the division of labour is not the result of the self-deployment of natural reason, but the consequence of capitalism. 'The foundation of every division of labour which has attained a certain degree of developed, and has been brought about by the exchange of commodities, is the separation of town from country. One might well say that the whole economic history of society is summed up in the movement of this antithesis'.[74] But when then emerges this foundational form of division of labour? Only with the development of mechanised

[71][The Ukrainian version here splits up the text in a new section, which we indicate just by an empty line. This section could be titled 'International division of labour'.]
[72] Smith 1909, p. 18.
[73] Marx 1963, p. 138.
[74] Marx 1976b, p. 472.

production. 'A consistent foundation for capitalist agriculture could only be provided by large-scale industry, in the form of machinery; it is large-scale industry which radically expropriates the vast majority of the agricultural population and completes the divorce between agriculture and rural domestic industry, tearing up the latter's roots, which are spinning and weaving. It therefore also conquers the entire home market for industrial capital, for the first time'.[75] By the same methods also the external market is conquered. The destructive action of capital, armed with mechanised technology, affects far beyond the country's borders.

> The cheapness of the articles produced by machinery, and the revolution in the means of transport and communication provide the weapons for the conquest of foreign markets. By ruining handicraft production of finished articles in other countries, machinery forcibly converts them into fields for the production of its raw material. Thus, India was compelled to produce cotton, wool, hemp, jute, and indigo for Great Britain.[76]

Along with the development of mechanical industry, foreign trade generally starts to take preponderance over domestic trade.

> The invention of machinery brought about the separation of manufacturing industry from agricultural industry. The weaver and the spinner, united but lately in a single family, were separated by the machine. Thanks to the machine, the spinner can live in England while the weaver resides in the East Indies. Before the invention of machinery, the industry of a country was carried on chiefly with raw materials that were the products of its own soil; in England – wool, in Germany – flax, in France – silks and flax, in the East Indies and the Levant – cottons, and so on. Thanks to the application of machinery and of steam, the division of labour was about to assume such dimensions that large-scale industry, detached from the national soil, depends entirely on the world market, on international exchange, on an international division of labour.[77]

[75] Marx 1976b, pp. 912–13.
[76] Marx 1976b, p. 579.
[77] Marx 1976a, p. 187.

Such dependence very often delivers heavy blows to industry, if it does not succeed sufficiently fast enough in the decomposition of pre-capitalist relations in the colonial and backward countries. Thus, Marx repeatedly dwells on the English efforts to work the transformation of India and China into an hinterland of capitalist industry.

> In so far as English trade has had a revolutionary effect on the mode of production in India, this is simply to the extent that it has destroyed spinning and weaving, which form an age-old and integral part of this unity of industrial and agricultural production, through the low price of English commodities. In this way it has torn the community to pieces. Even here, their work of dissolution is succeeding only very gradually. These effects are felt still less in China, where no assistance is provided by direct political force. The great economy and saving of time that results from the direct connection of agriculture and manufacture presents a very stubborn resistance here to the products of large-scale industry, whose prices include the *faux frais* [overhead expenses] of the circulation process with which they are everywhere perforated.[78]

It is known with what methods capitalism overcomes these obstacles: they entirely copy the first era of 'primitive accumulation', which, thus, *not only precede the rise of the capitalist system, but are its constant satellite*, accompanying its victorious procession around the globe. Luxemburg devoted brilliant pages of her work describing these methods, but she gave only an additional illustration to provisions long before her formulated by Marx.

The division of labour between members of one and the same society – crafts, manufacture and so on – has its original starting point in natural sex and age differences in the confines of family and kinship. Arisen on a natural basis, it is in its further evolution already entirely subordinate to laws of social development.

The same applies also to the system of international division of labour. Initially, it exists as natural difference in the forms of production and existence of self-reliant communities, that depend on differences in the natural environment. Exchange, arising between communities, finds these differences as ready historical fact and only binds between itself these diverse areas of production, thus turning each of them in a dependent part of the total social

[78] Marx 1981, pp. 451–52. ['Whence this inability in the most advanced factory system of the world to undersell [Chinese] cloth woven by hand in the most primitive looms? The combination we have already pointed to, of minute agriculture with domestic industry, solves the riddle' (Marx 1980, p. 538). Contrast with the earlier view in the *Manifesto*: 'The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls'.]

production. The further fate of this intertribal, international division of labour depends already not so much on natural environment, as on the conditions of economic development. Marx cruelly castigated and ridiculed attempts to reduce the diverse international division of labour in the modern era to natural, geographical, racial, and so on, conditions, calling them trivial tautologies and common places.[79]

> For instance, we are told that Free Trade would create an international division of labour, and thereby give to each country those branches of production most in harmony with its natural advantages. You believe perhaps, gentlemen, that the production of coffee and sugar is the natural destiny of the West Indies.
> Two centuries ago, nature, which does not trouble herself about commerce, had planted neither sugar-cane nor coffee trees there. And it may be that in less than half a century you will find there neither coffee nor sugar, for the East Indies, by means of cheaper production, have already successfully broken down this so-called natural destiny of the West Indies.[80]

How true this prophecy proved, is shown by the clear fact of the changing role of the United States – the most important part of the 'West-Indies' – in the world economy. As for sugar production, the 'natural vocation' to this occupation was revealed in Europe itself, after the prevalence beet got in agricultural cultivation, which it had to defend by protective duties from competition of American cane, itself summoned to life by the same Europe.

> In some respects, Europe perfectly managed to throw off that dependence, in which her colonies put her, inasmuch as it could only from them receive certain products. If one once zealously searched for exotic products for the European market and European industry; then now one is no less zealously trying to create in Europe local surrogates of colonial products. *Sugar cane* is replaced by beet, indigo replaced by chemical colour; one is beginning to sow potatoes in Europe, and it achieves here colossal distribution; although on a smaller scale, but for all that one successfully begins to cultivate in Europe also tobacco. Among this series, further, one begins consuming new products that are brought from overseas. First place among them takes petroleum (kerosene). As is known, it went extremely fast into general use

[79] See Marx 1986, p. 24.
[80] Marx 1975, p. 464.

> throughout Europe. But with no less speed and success gas and electricity started to compete with it. As object of use at the end of the nineteenth century *cocoa* was fairly wide spread; as raw material for industrial purposes *jute* and *rubber* began to spread. However, cocoa together with coffee already also now must lead an uphill battle against the competition of various *surrogates of coffee*, and to the extent that rubber finds more application in industry, industrial technology more zealously tries to find surrogates for it. Such a situation is given: on the one hand, Europe no longer needs the colonies, as suppliers of purely colonial commodities, on the other the foreign lands import more products, which Europe itself produces since ancient times: *grain and wool*.[81]

Natural-historical, racial and other conditions, of course, have their importance in the system of international division of labour. But a huge step forward, made by Marxist economics, was to prove that the natural differences increasingly land on the back burner compared to differences of a cultural-historical order. The latter continuously are being smoothed out in the general course of capitalist development, become just a function of capital, and at the same time reappear due to uneven capitalist development in different countries. On this basis there is a *continuous movement and transfer of geographical centres of production and exchange*. The world market is a stronger determinant than climate, soil, race, and so on. In listing the conditions which determine the degree of labour productivity, Marx allots natural conditions last place:

> [T]he productivity of labour [...] is determined amongst other things by the workers' average degree of skill, the level of development of science and its technological application, the social organization of the process of production, the extent and effectiveness of the means of production, *and the conditions found in the natural environment*.[82]

But therewith one must bear in mind that natural conditions also themselves do not remain constant. 'Man, who produces in society, likewise faces an already modified nature (and in particular natural factors which have been transformed into means of his own activity)'.[83] But even then, when the natural conditions do not change, their *employment* by man

[81] Parvus 1907 [p. 124 in Russian edition].
[82] Marx 1976b, p. 130.
[83] Marx 1989b, p. 428.

depends on the cultural development of the country. 'External natural conditions can be divided from the economic point of view into two great classes, namely (1) natural wealth in the means of subsistence, i.e. a fruitful soil, waters teeming with fish, etc., and (2) natural wealth in the instruments of labour, such as waterfalls, navigable rivers, wood, metal, coal, etc. At the dawn of civilization, it is the first class that turns the scale; at a higher stage of development, it is the second'.[84] On the other hand, those natural conditions which can be counted as *subjective* elements of production – racial characteristics, likewise in most cases are subordinated to social laws.

> All peoples do not have the same predisposition towards capitalist production. Some primitive peoples, such as the Turks, have neither the temperament nor the disposition to it. But these are exceptions. The development of capitalist production creates an average level of bourgeois society and therefore an average level of temperament and disposition amongst the most varied peoples. [It is] as truly cosmopolitan as Christianity.[85]

The change of the natural surroundings, of the inherited cultural-historical particularities nevertheless is bound by conditions of space and time.

> Man is not free to choose *his productive forces* – upon which his whole history is based – for every productive force is an acquired force, the product of previous activity. Thus, the productive forces are the result of man's practical energy, but that energy is in turn circumscribed by the conditions in which man is placed by the productive forces already acquired, by the form of society which exists before him, which he does not create, which is the product of the preceding generation. The simple fact that every succeeding generation finds productive forces acquired by the preceding generation and which serve it as the raw material of further production, engenders a relatedness in the history of man, engenders a history of mankind, which is all the more a history of mankind as man's productive forces, and hence his social relations, have expanded.[86]

[84] Marx 1976b, p. 648.
[85] Marx 1991, p. 369.
[86] Marx 1982a, p. 96.

The presented extract thus establishes those reasons which cause a certain hierarchy in position of different countries and peoples. This – is the inherited cultural-historical environment, which is based on a certain state of the productive forces. But the more the accumulation of these [productive] forces unfolds, the more they contribute to the convergence of different nations and countries, the more the history of peoples is unified in a general history of man. In particular, as we found earlier, this mission is fulfilled by the capitalist system, revolutionising all forms of economy, destroying any historical hurdles. Incidentally, very often the displacement of countries on the stairs of the division of labour happens under the influence of the development of the means of transport, entirely changing the location of the centres of production and exchange.[87]

3.

We treated until now the processes of the development of the world market from the viewpoint of those driving forces, that are *due to the contradiction between use-value and exchange-value of commodities*. But in connection with the contradiction, inherent to these basic categories of commodity economy, and on the basis of it there appears another contradiction *between production and consumption, which forms another group of forces*

[87] Kautsky says that the modern division of labour between participants of the world market is based on the one hand on natural differences, on the other, emerges from socio-economic conditions. To the exclusive influence of capitalism one should attribute the separation of countries into industrial and agricultural types, although natural conditions do not call forth the necessity of such harmful specialisation. But capitalism itself is preparing the conditions conducive to the destruction of this division, [namely by] industrialising agrarian countries. Kautsky believes that the socialist system will bring the international division of labour to the dimensions conditioned only by the natural-historical character of various countries (see Kautsky 1911, p. 98). Of course, there can be no doubt that the tendency will be to eliminate, or at any rate, hugely weaken the opposition between industrial and agrarian countries, in the sense of a convergence of economic types. However, to expect that thereby the division of labour would be reduced to 'natural scales' is not necessary. Firstly, these natural conditions themselves are continuously changing, partly by themselves, partly under the influence of cultural alterations. And, secondly, even within the confines of the same type of economy *in any given period of time* specialisation is possible and inevitable in one or more directions, emerging from its socio-economic, cultural, existential particularities. The content, direction, forms may change, the 'attachment' of individual countries to special branches disappears, but the 'continuous' specialisation remains, because it is difficult to imagine a simultaneous and synchronous ubiquitously identical tempo even within one and the same form of economic development. 'Consumption of groups change, new [needs of] consumption cause new [industrial] arts, new arts change the distribution of productive energy and attach importance to new parts of the earth' (Hobson [no reference, probably Hobson 1904]). As to the specific conditions of capitalism, then here a whole binding of contradictory trends operates, from which some contribute to a convergence of economic types, [while] others create new oppositions. Most of them are related to the law of the tendency of the falling rate of profit and its countervailing factors, among which not in the last instance counts the Weberian theory of 'agglomeration' of industrial production. However, the consideration of all these issues relates to a subsequent [stage in our investigation] [This key thought of Dashkovsky perhaps here will be touched in section four, and further in the next chapter, section four]. [This footnote is not in the Ukrainian version.]

leading to the development of world exchange. We regard this contrast between production and consumption not in the sense which Luxemburg gave it. Luxemburg came to the conclusion that this contradiction *absolutely* excludes the possibility of accumulation in capitalist society, and, hence, the possibility of existence of the latter – because without accumulation capitalist economy is unthinkable. The saving zone for capitalism should be the non-capitalist sphere. Thus, one of the main contradictions of capitalism, that in Marx's system is the moving force of its *development*, in the hands of Luxemburg is turned into a *flat* contradiction, making capitalism simply *impossible*, that is turns up absent of any *dialectical* content.

Already in polemics with Proudhon, complaining that the distribution of social wealth does not correspond with what it needed to be 'in theory' – with the size of production, Marx wrote:

> In English society the working day thus acquired in 70 years a surplus of 2,700 per cent productivity; that is, in 1840 it produced 27 times as much as in 1770. According to M. Proudhon, the following question should be raised: why was not the English worker of 1840 27 times as rich as the one of 1770? In raising such a question, one would naturally be supposing that the English could have produced this wealth without the historical conditions in which it was produced, such as: private accumulation of capital, modern division of labour, automatic workshops, anarchical competition, the wage system – in short, everything that is based upon class antagonism. Now, these were precisely the necessary conditions of existence for the development of productive forces and of surplus labour. Therefore, to obtain this development of productive forces and this surplus labour, there had to be classes which profited and classes which decayed. [...] Wipe out these relations and you annihilate all society, and your Prometheus is nothing but a ghost without arms or legs; that is, without automatic workshops, without division of labour – in a word, without everything that you gave him to start with in order to make him obtain this surplus labour.[88]

Thus, the antagonism of production and consumption for Marx is a *contradiction, moving forward*. For Rosa Luxemburg it is the *deadlock* of capitalist economy. Marx says: destroy this antagonism and you destroy the very existence of capitalist society. Rosa flipped this

[88] Marx 1976a, p. 159.

formula upside down: the *presence* of this contradiction *destroys the possibility* of existence of capitalist society. If it nevertheless exists, then only because it exists merely *in part*, inasmuch as beside it there still is the availability of the 'third person'. The viewpoints mutually exclude each other, wherewith in Rosa there is a clear inclination towards a metaphysical or formal-logical formulation of the question: yes–yes, no–no.

We will not dwell here on the well-known controversy about the theory of Luxemburg.[89] Our task is to give the characteristics of the Marxist understanding of the antagonism of production and consumption. For Marx the contradiction lies not in the point that surplus-value in conditions of extended reproduction in general cannot be realised within the limits of the domestic consumer market, but in the point that *production has a constant tendency to outrun even the expansion of consumption connected with it*, because the goal of capitalist production is not at all the meeting of needs. 'It is a false abstraction to treat a nation whose mode of production is based on value, and organized capitalistically into the

[89] [Dashkovsky rejects her theory as theory, but he accepts its practical significance for reality (see Dashkovsky 1923, pp. 238–44): 'The necessity of "third parties" for the realisation of products of capitalist industry is clear and obvious. Indeed, each new period of reproduction takes place on a broader base, and the wider the volume of the consumer market, the more unhindered production can grow, the less it must take into account the size of consumption within the capitalist sphere, the less it must care about maintaining the necessary proportion between production and consumption. The significance of non-capitalist consumers lies in the fact that they create demand, completely independent of the conditions of the capitalist economy, supply capital with consumers *from outside* and make it possible, through the sale of surplus goods, to continue production on an expanded scale, with disregard of the size of the consumer market within the capitalist countries themselves. Growth of production in this case can occur even within the narrowing confines of the internal market, as often happens, for example, when establishing high monopoly prices within a country. If we take the capitalist economy in its concrete historical development, we will find that at all stages of this development capitalism was nourished and developed at the expense of the non-capitalist external environment. Left to its own resources, it would no longer be able to cope with the contradictions that are generated by the laws of its own development' (p. 239–40). 'The contradictory nature of capitalism predetermines, of course, its collapse, its "impossibility", but just not from the first moment of the appearance of contradictions, *but as a tendency and, as a result of development*. Therefore, from the fact that there is an undoubted contradiction between the trend of expanded reproduction and the fact of limited consumption of the masses, one cannot conclude that capitalism is impossible, but one must find the conditions and laws in which this contradiction moves and develops while simultaneously promoting the development of capitalist relations and preparing for their destruction' (240–1). 'Effective demand is necessary in the last resort, but at intermediate levels not only cash, but also credit documents, bills of exchange, and so on, serve as payment. All kinds of fictitious values create fictitious demand, *fictitious* demand creates *real* growth in production, and real growth in production increases the real demand for goods, and so on. The credit system thus allows the capitalist economy *to anticipate*, to reckon on the future growth of consumption, the solvency of which is created by the very mechanism of expanding production' (242). '[E]ven a slight expansion of the consumer market can impart a colossal scope to production, which at subsequent levels actually creates an additional consumer market for itself. But from here the opposite is also clear: any slightest reduction in consumer demand can cause a colossal catastrophe in the sphere of production, because the reduction in demand, starting small, grows like a snowball, being transmitted to more and more distant links and creating more and more new waves of reduction. The narrower the basis of the consumer market, the greater the danger of such catastrophes. It is from this point of view that the extreme instability of pure capitalism, based solely on the basis of internal consumption of workers and capitalists, is revealed. Such capitalism is as a pyramid, with the top pointing down. To maintain equilibrium, capitalism therefore needs a broad basis of consumption and, moreover, a basis unlimitedly expanding in accordance [with] the tendency towards unlimited expansion of the production field. And such a basis can only be obtained on account of a non-capitalist environment' (243–4).]

bargain,[90] as a unified body simply working for the national needs [*Bedürfnisse als solche*]'.[91]

Capital is *self-expanding* value, value, which, firstly, is in constant motion, secondly, completely 'emancipated from the forces generating the value' – from the labour forces, and consequently the needs of this workforce. Capitalism has a constant tendency to expand production to the limits due to the size of available productive forces: 'to produce to the limit set by the productive forces (that is to say, to exploit the maximum amount of labour with the given amount of capital), without any consideration for the actual limits of the market or the needs backed by the ability to pay'.[92] On the other hand, it has a no less constant tendency to reduce the demand of the working masses to only the necessary minimum.

'The mass of the producers remain tied to the average level of needs, and must remain tied to it according to the nature of capitalist production'.[93] The evolution of the demands of these layers of the population consists, mainly, of the fact that the increase of their *versatility* takes place with the growth of diversity in production. But the general size of value, designed to meet these needs, changes little, and all the greater dissatisfaction is felt.

The increase of productivity of labour, which is a constant companion of capitalism, even more confronts these polar tendencies. 'The country is the richer the smaller the productive population in relation to the unproductive, the quantity of products remaining the same. For the relative smallness of the productive population would be only another way of expressing the relative degree of the productivity of labour'.[94] If the working population does not decrease, if it even grows, then all the same the rate of production grows even faster, meanwhile as 'the mass of the people can never consume more than the average quantity of necessaries, that their consumption therefore does not grow correspondingly with the productivity of labour'.[95] Here is given the general condition of *overproduction*. However, this is not a chronic overproduction, because 'permanent crises do not exist'.[96] It should accrue to a significant magnitude, in order to break out, as crisis, after which comes a temporary *underproduction*.

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[90] [That Marx makes this specification ('*weiter capitalistisch organisirt ist*') indicates that one could conceive of a mode of production based on value, which is not capitalist.]
[91] Marx 1981, p. 991 [Marx's emphasised here the word 'value' in the original, see Marx 2012a, p. 872 (absent in translation Marx 2015 ,p. 916).]
[92] Marx 1989b, pp. 163–64.
[93] Marx 1989b, p. 164.
[94] Marx 1989a, p. 127.
[95] Marx 1989b, p. 102.
[96] Marx 1989b, p. 128.

The balance between production and consumption, arising from the objective laws of economy, which, in the final light, also the capitalist form of production must obey, exists only, as a sort of abstract middle line, representing itself the resultant continuous deviations, distortions, explosions and catastrophes.
Capitalist production periodically meets with the limitations of the market and with the same frequency experiences the need to extent *its geographical boundaries*.

> The market is limited externally in the geographical sense, the internal market is limited as compared with a market that is both internal and external, the latter in turn is limited as compared with the world market, which however is, in turn, limited at each moment of time, [though] in itself capable of expansion. The admission that the market must expand if there is to be no overproduction, is therefore also an admission that there can be overproduction. For it is then possible – since market and production are two independent factors – that the expansion of one does not correspond with the expansion of the other; that the limits of the market are not extended rapidly enough for production, or that new markets – new extensions of the market – may be rapidly outpaced by production, so that the expanded market becomes just as much a barrier as the narrower market was formerly. Ricardo is therefore consistent in denying the necessity of *an expansion of the market* simultaneously with the expansion of production and growth of capital.[97]

In other words: if the market and production were, as Ricardo thinks, two sides of the same whole, represented an exclusive moment of *unity*, then there would be no need to expand the market. But, according to Marx, between 'market' and production a more complex relationship exists. Although they also represent a unity in the sense that producers, meeting on the market, in the final light, work for each other, but a unity, *formally torn into independent moments*: because producers operate independently of each other, and, in addition, market exchange takes place with the *help of money*, and not in the form of natural exchange. Consequently, the sum of purchases and sales of one and the other of these participants of trade, which is mathematically identical with the direct exchange (which also forms the moment of unity), under monetary exchange does not match in every given moment. Unity here does not exist under each act of exchange, but only as a *statistical average* of many acts over a long period of time. Secondly, under capitalist commodity

[97] Marx 1989b, p. 154.

circulation the independent movement of production and the market gets not only a different character, of not coinciding with themselves movements, but of movements of *contradictions*, of *opposites*: production factually limitless, [whereas] the market (understood as sales market of produced commodities) limited in every given moment.
The resolution of this contradiction happens *either by violent means of crisis, or by means of geographical expansion of the market*, which also in most cases happens by force. And then the contradiction is reproduced on an enlarged scale, on a wider territory.
An expansion of the market to the limits of the world market, helping to resolve the contradiction arisen on the narrow base of national production, reproduces these contradictions on a wider scale on the world arena for three reasons:
1. Overproduction arises on the basis of disproportions between various sides of the process of social circulation of capital. This disparity is due to the uneven development of various sectors of the economy, unevenness of production and consumption, and so on. But the expansion of the world market, places countries in dependence on each other, *found at different stages of economic development, increasing tenfold this unevenness*. Marx stressed this, ridiculing Say's theory of the impossibility of general overproduction by the example of a small 'international' illustration.

> [For instance, that] England has not *overproduced* but Italy has *underproduced*. There would have been no overproduction, if Italy 1) had enough capital to replace the English capital exported to Italy in the form of commodities; 2) if Italy had invested this capital in such a way that it produced those particular articles which are required by English capital – partly in order to replace itself and partly in order to replace the revenue yielded by it. Thus the fact of the actually existing overproduction in England – in relation to the actual production in Italy – would not have existed, but only the fact of *imaginary underproduction* in Italy; imaginary because it presupposes a capital in Italy and a development of the productive powers that does not exist there, and secondly because it makes the equally Utopian assumption, that this capital which does not exist in Italy, has been employed in exactly the way required to make English supply and Italian demand, English and Italian production, complementary to each other. In other words, this means nothing but: there would be no overproduction, if demand and supply corresponded to each other [...].[98]

[98] Marx 1989b, pp. 160–61.

Such uniformity is utopian within the limits of one country, and doubly utopian in the world market. *The world market increases, thus, the scale of contradictions tearing capitalist society apart, arising from uneven development*.

2. The world market promotes enlargement of the scale of production, a further specialisation and division of labour, that would be impossible within the narrow scale of the national market.

This fact by itself, not to mention the increased rate of profit and accumulation due to foreign trade (on this topic in the following), even further enhances the 'scissors' between the scale of production and dimension of consumption. And this even strengthens more the desire to expand beyond the limits of the existing market, revolutionising industry, strengthening its concentration and specialisation. And then industry revolutionises trade. That is the reason why dominance on the world market shifted from a trading nation (Netherlands) to an industrial nation (England).

3. Confronted on the world market with pre-capitalist forms of economy, peasant, and so on, still in condition of subsistence existence, capitalism must first of all solve the problem of *creating a market,* destroying the natural system and turning it into a commodity, and then capitalist economy. But the path to this lies through destruction of the peasantry.

> For it is one of the necessary corollaries of *grande industrie*, that it destroys its own home market by the very process by which it creates it. It creates it by destroying the basis of the domestic industry of the peasantry. But without domestic industry the peasantry cannot live. They are ruined, as peasants; their purchasing power is reduced to a minimum; and until they, as *proletarians*, have settled down into new conditions of existence, they will furnish a very poor market for the newly-arisen factories.[99]

As is known, this was the main argument of the Narodniks in favour of the theory of the inevitability of the non-capitalist evolution of Russia, about the 'artificiality' of the capitalism we have, about the lack of a domestic market.

The Narodniks were mistaken in the same sense as Luxemburg: they 'proved' more than necessary. From the certain fact of destruction of peasantry, reducing the purchasing power of the population, and so on, they concluded the 'impossibility' of capitalism, while in fact

[99] Engels 2001b, p. 537.

these symptoms attested only painful growing cramps, that accompanied everywhere the first steps of the capitalist mode of production.

However, there is no doubt that in those phenomena, that accompany the penetration of capitalism in backward countries of the modern world, there exist new elements, making crisis much more acute.

First, the initial development of capitalism in the old countries of capitalist production began with *manufacture*, which, on the one hand, occurred as a very slow process replacing craft and peasant forms of economy, and on the other hand, itself operated on them. In addition, already in its character of predominantly *manual* production, manufacture required more workers hands, then is appropriate of the scale of mechanised production. Thus, the transition from subsistence economy through ruin into the ranks of the proletariat, despite tremendous disaster, which accompanied it for the masses, happened all the same safely from the standpoint of social production in general. In contrast, in modern countries of small production capitalism 'screws in' immediately with the help of railways and products of developed mechanised industry. The 'dissolving' effect of machines is something different from the effect of manufacture. This is evidenced by at least the fact that history does not know riots against manufacture, whereas workers' struggle with the machine is a necessary step in the capitalist development of each country. The destructive effect of modern industry on small production of backward countries is immeasurably sharper. It immediately plunges tens of millions into horrifying poverty.

Second, in European countries the shift of craft to capitalist production, the separation of industry from agriculture occurred in such a way that manufacture, and then also machine production appeared *in the same place, in the same country, where the old forms of economy were breaking up*. In contrast, the penetration of capitalism in Asian countries, in countries of Eastern Europe, and so on, are not expressed in the form of organisation of capitalist production there (at least in the beginning), but in the form of organisation of sales of capitalist manufactured commodities, whose centres of production were in Europe. China, India and others received as their share all disasters of the initial period of development of capitalism, without acquiring its positive results.

Third: European capitalism, even in the form of manufacture, received its first impetus from world commerce and from the demand of the colonial markets. These created for it a broad foundation for the expansion of production, *independent of the demands of the domestic market*. 'The demands of the new colonial markets could not be satisfied by the relatively small number of urban workers handed down from the Middle Ages, and the manufactures

proper opened out new fields of production to the rural population which had been driven from the land by the dissolution of the feudal system'.[100] In contrast, capitalist production, if it is even organised in new countries, not only has not these perspectives in front of it, but is under tremendous competitive pressure of the more advanced capitalist countries, taking over its domestic market.

In countries of old capitalism, the law operates of the relative reduction of variable capital, employed in production, with an *absolute growth of the number of workers*. This absolute growth is due to the expansion of capital, in particular the expansion of branches producing means of production. But for those more backward countries that are just getting involved in the process of capitalist production, this growth of the magnitude of the proletariat is closed off at half or three quarters of the way. Initially they receive finished commodities from highly developed countries. Only gradually they move on to their own production of commodities. But the production of *instruments* is not found in their hands. Asian countries as of yet still have not come out of the Marxist second department of capital: production of consumer commodities. Heavy industry, which in higher degree absorbs labour forces, does not take root here, but in the metropolises. 'Like toy trains and motorised boats serve as gifts under the Christmas tree for children in the present day, so railways bring whole cotton-mills to Asia'.[101]

All these factors determine the general character of the *catastrophe*, accompanying the expanding capitalist market, but cannot, of course, either suspend this extension, or prevent the development of capitalist relations and capitalist production wherever these relations take root. Proof is the development of Japan, China, India, and so on, in our epoch. If the listed by us condition *opposes* this process, then it is nevertheless a *strongly active* means, of *promoting* it, and among them the most important is the export of capital, about which, however, discussion will be elsewhere.[102]

From our analysis it is clear that the *market of sales of capitalist produced commodities, spreading more and more broadwise, in new territories, necessarily must make the market smaller and smaller, decrease in its relative capacity*. This is a very important factor, which, I think, was insufficiently emphasised so far in the literature, and the underestimation of which entails substantial gaps in the analysis of the causes of imperialism, and so on.[103] Very often, for example, one refers to the grandiosity of the spaces

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[100] Marx 1976b, p. 556.
[101] Parvus 1907 [p. 150 in Russian edition].
[102] [Chapter two, sections three and four, briefly.]
[103] [On a related note, Finn-Enotaevsky criticised Lenin's formulations that 'the question of a foreign market *has absolutely nothing to do with the question of realisation*', that a 'foreign market is needed because it is

and the number of people, which provide, supposedly, unlimited scope for further expansion of capitalism on a broader base. Such indications are most often made by bourgeois apologists and their helpers from the camp of the Second International. Indeed: India, China accommodate nearly half the world's population, a population barely affected by capitalist economy. What need is there to worry about markets, and so on.[104] We give on this subject a somewhat long extract from the same letter of Engels to Nikolai – the one that we already cited above:

> Capitalist production being a transitory economical phase, is full of internal contradictions which develop and become evident in proportion as it develops. This tendency to destroy its own market at the same time it creates it, is one of them. Another one is the insoluble situation to which it leads, and which is developed sooner in a country *without* a foreign market, like Russia, than in countries which are more or less capable of competing on the open world-market. This situation without an apparent issue finds its issue, for the latter countries, in commercial revulsions, in the forcible opening of new markets. But even then, the cul-de-sac stares one in the face. Look at England. The last new market which could bring on a temporary revival of prosperity by its being thrown open to English commerce is China. Therefore, English capital insists upon constructing Chinese railways. But Chinese railways mean the destruction of the whole basis of Chinese small agriculture and domestic industry,

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inherent in capitalist production to strive for *unlimited expansion*', and that there 'are no reasonable grounds whatever for separating surplus-value from the total product so far as its realisation is concerned' (Lenin 1897, pp. 162, 164, 161; similar also in Lenin 1899), as follows: 'The Achilles's heel of capital is precisely that production by itself is *unlimited*, whereas the market is *limited*. [...] Capital overwhelms national borders not at all because there is no *absolute* room for further expansion of the productive forces of the country, but because under existing conditions it cannot *realise* the value created by these within the borders. Precisely because the market – the field of realisation – "grows slower than production", overproduction arises, and hence also the striving to expand the geographical borders of the market, to foreign markets' (Finn-Enotaevsky 1911, pp. 21–2, our translation). Finn stood by this in the 1925 edition, but nevertheless indicated his disagreement with Luxemburg. Compare: 'Foreign trade ... is therefore necessary for capitalist production ... [T]he reproduction process is dependent not on the production of mutually complementary equivalents in the same country, but on the production of these equivalents on foreign markets, on the power of absorption and the degree of extension of the world market. This provides an increased possibility of non-correspondence, *hence* a possibility of crises' (see Marx 1994, pp. 221–2).

[104][Here in the Ukrainian text, Dashkovsky elaborates, targeting Bukharin: 'But also in the camp of revolutionary Marxism such arguments are sometimes heard. Thus, Bukharin, who by and large correctly criticises the theory of Luxemburg, is mistaken in this question, in our opinion. He writes: [Dashkovsky here cites Bukharin 1972b, pp. 260–1]. Comrade Bukharin here, undoubtedly, is engaged in a "numbers game". Is there indeed a reservoir of such magnitude, as this turns out from the number of the non-capitalist population? First of all, if we put next to these numbers the figures of world foreign trade, it turns out that the roughly 200-300 million industrial population of Europe and America outweighs in its economic importance this whole "reservoir" of one and a half billion people. But, perhaps, the Asian, African, South-American market can "deepen" to the depth of the European one, and thereby open an inexhaustible source of demand?
Theoretically, of course, it is possible, but let us view reality and look to what this "deepening of non-capitalist markets" practically leads'.]

> and as there will not even be the counterpoise of a Chinese *grande industrie*, hundreds of millions of people will be placed in the impossibility of living. The consequence will be a wholesale emigration such as the world has not yet seen, a flooding of America, Asia and Europe by the hated Chinaman, a competition for work with the American, Australian and European workman on the basis of the Chinese standard of life, the lowest of all – and if the system of production has not been changed in Europe before that time, it will have to be changed then.[105]

Here is the true source of the 'catastrophe' of our epoch, insofar as it regards the interrelation with the 'third person'. It is precisely the huge number of those masses that capitalism sets in motion, preventing their possibility of life, *bankrupting them, as peasants, and not being able to immediately turn them into proletarians – precisely this is the main reason of the fact that capitalism began to choke*. The colossal Asian 'reserves' – are not reserves of capital, but reserves of its gravedigger – the proletariat.

Bukharin notes one side of the question,[106] given by the 'third person': surplus profits and its monopolistic capture by the strongest capitalist powers, which generates mutual struggle for the margins and so forth. This, undoubtedly, is a circumstance of colossal significance, but taken alone, it is unable to *fully* explain the modern epoch. It is necessary to add the contradiction, so brightly noted by Engels and which, amongst others, in the best way explains the reasons of the special revolutionising of young countries of capitalism. It is also entirely in harmony with the views of Lenin on the reasons that capitalism 'bursts' first of all in backward countries.

However, we will yet return to this subject in another connection.

The role of world capitalist monopolies, having decisive significance for the fate of capitalism, should not overshadow in our eyes the action of other destructive forces, springing to life by the modern system of capitalism and independent from this or the other forms of the latter. It must be remembered that in the period of monopolies laws continue to operate, described by Marx in capitalism's epoch of free competition.[107]

On the other hand, the very fact of such exceptionally fast capture of the whole earth, the division of the whole world by a few large imperialist countries, which occurred in a period of around *thirty odd years* (from 1880 to 1914) must make us *search the reason of this historically unprecedented phenomenon in the special conditions of the capitalism of our*

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[105] Engels 2001b, pp. 537–38.
[106] See Bukharin 1972b, p. 262.
[107] [Several chapters are on monopoly in Dashkovsky 1925a.]

era. Such extraordinary extension broadwise becomes necessary when there exists a special difficulty, preventing the extension inland. Expansion replaces in this case the intensive dissociation of old forms.

In many respects the modern epoch resembles on a global scale the period of late seventeenth and early nineteenth century in Europe. Then capitalism broke the old forms in Europe, causing on a smaller scale the same phenomenon, which now is observed on the global scale. Then too 'the workers excluded from large-scale industry ([namely those in] manufacture and crafts, and so on) are placed by it in a still worse situation than the workers in large-scale industry itself'.[108] In the working class this period side-by-side with outbursts of the revolutionary movement, called forth acute struggle against the machine, and in bourgeois economy this epoch was reflected by the flowering of Malthusianism, seeing the source of all troubles in excessive procreation of persons. History repeats itself. The most prominent representatives of modern bourgeois science, as, for example, Keynes, again are turning to Malthusianism for an explanation of the reasons of modern disasters. Recently Keynes expressed in that sense, that unemployment in England is caused by her excessive population.[109] But the same idea in a more general form he stated already in his first book, devoted to the Versailles treaty. He pointed then to the overpopulation of the whole of Europe, as the cause of her suffering. In the same spirit he explained also the Russian revolution.

> The great events of history are often due to secular changes in the growth of population and other fundamental economic causes, which, escaping by their gradual character the notice of contemporary observers, are attributed to the follies of statesmen or the fanaticism of atheists. Thus the extraordinary occurrences of the past two years in Russia, that vast upheaval of Society, which has overturned what seemed most stable—religion, the basis of property, the ownership of land, as well as forms of government and the hierarchy of classes—may owe more to the deep influences of expanding numbers than to Lenin or to Nicholas; and the disruptive powers of excessive national fecundity may have played a greater part in bursting the bonds of convention than either the power of ideas or the errors of autocracy.[110]

[108] Marx 1975, p. 74. [Round brackets by Dashkovsky.]
[109] [No reference.]
[110] Keynes 1920, pp. 14–5.

The appeal to 'laws of population' indicates only the powerlessness of modern capitalism to cope with its contradictions, that have become contradictions of a global scale and cannot be eliminated by simple extension of the 'external field of exploitation' like in the nineteenth century.[111]

4.

If the original ground on which world market and international economic relations emerged was the *difference of consumer goods*, which formed the *premise* of this exchange and value, then the driving force of this process in its definitive phase becomes the *difference of value production* of the same [kind of] commodities in various points of the globe and the diversity of profit rates conditioned by it. The law of value as before remains the basic spring of the movement. But the character of its action has changed, originally the law of value was expressed in the contradiction inherent in a commodity form of economy, the contradiction between use-value and value. Next the law of value passed into the contradiction between the conditions of production of value and the conditions for its realisation under capitalism. Hereafter the law of value moves into the contradiction between the level of development of productive forces and the level of accumulation, which is expressed in different amounts of values and profit rates in various countries.[112] It goes without saying that predominance of one of the listed forms does not annul the others. Here there exists the closest binding, which gets [more] complicated together with the growth of the world market. But the colouring of the era imparts usually one form, of the listed, to the manifestation of the law of value. The latest period of capitalism, characterised by the dominance of *capital export,* is nothing but the expression of the predominance of the third form of contradiction, which causes *not only a transfer of the commodity mass, but also a transfer of productive forces themselves between countries*.

[111][Here the French translation ended.]

[112] [The 'which' probably refers to 'level of accumulation' (not to 'contradiction'). And then by 'level of accumulation' would here be meant (or be as expressed as) the amount of value and the (national) general profit rate. The 'development of productive forces', Dashkovsky in a moment will say, he equates to the organic composition of (social) capital. The contradiction would thus be between the organic composition of capital, and the profit rate and the amount of values (by the latter is perhaps meant the national general rate of surplus value). The nature of this contradiction, 'only fragmentarily investigated by Marx', is investigated in section four of the next chapter. It does not consist of different 'development of productive forces' by itself.]

We turn now to a more complex and less studied problem of the world economy – to the analysis of value relations in international exchange.[113]

However, beforehand we need to clarify some concepts, with which we operated until now like colloquial terms ('external market', 'world economy', 'national economy', and so on), although different authors put a different content in them. We need to resolve here two questions: 1. What should be understood by the terms 'external market' or 'external sphere' in relation to a given economic system? and 2. What meaning should be given to the classifications – 'single [or individual] economy',' national economy', 'world economy'?

As is known, the concept of 'external market' is used in economic literature in a double meaning. Most often it is given a purely *geographical* or *politico-geographical* interpretation. The external market is the market lying beyond the borders of a given organic territory, the market of another *country*, another *state*. In bourgeois literature foreign markets are exclusively treated in this sense. Insofar as we are talking about such international relations, which are defined by a variety of products, produced in different countries, [that is defined] by a variety of consumption goods, creating the foundation of exchange and value, – such a definition of the foreign market is entirely sufficient. The foreign market is a market delivering commodities of another consumption-form than those that are delivered from the given country. But also, such a foreign market does not have to fully coincide with political borders.

The question about the external market is raised differently from the viewpoint of the problem of the realisation of surplus-value. From the viewpoint of Luxemburg's theory, this realisation is only possible on the external market, having a *pre-capitalist* economic structure. It is impossible in pure capitalist society. From the Marxist viewpoint such external market is not a theoretical necessity for capitalism, but in practice it significantly eases the problem of realisation.[114] In any case, the market from this viewpoint must be not simply external in the geographical sense, but also in the *economic sense, different in its*

[113] [This analysis will begin only with chapter two.]

[114] [Poznjakov too rejected Luxemburg's theory (Poznjakov 1924, pp. 132–7). But he too praised her for raising the importance of the 'foreign market', taken as non-capitalist or independent producers, for capitalist accumulation. To this intricate subject of the mutual relation between capitalist production and its simple commodity production surroundings, he devoted his theoretical study, modeling complications due to merchant capital. He also portrayed in a table the normal mechanism of the transfer of value from a lower organic composition of 'capital' (of the independent producers) directly to the industrial capitalist sphere (Poznjakov 1924, pp. 149–50). That is, he posited the existence of a general rate of profit (and price of production) that was 'international' (in Luxemburg's sense). His point (different from Luxemburg's) was, that this raises the general rate of profit (of the capitalist sphere), and so counteracts the tendency of the rate of profit to fall. Note formally, there is no assumption here of capital export, as the simple commodity producers are not foreign subsidiary branches of capitalist companies.]

organised-economic structure, the market of the 'third person'. *Geographical understanding is replaced by an economic understanding*.

However, when we come to the question of the *value* relations in the world economy, it turns out that the concept of the external market *from the viewpoint of this problem* must be distinguished from the first two. The magnitude of value changes from country to country not only in dependence on the different types of economic structure, but primarily in dependence on the average level of labour productivity in every country, [that is] *on the level of the productive forces*. The degree of development of productive forces may be different in countries belonging to the same economic type. Marx attached great importance to this difference between countries. We know that the fundamental presupposition of the labour theory of value is an equalness of the producers and an equalness of labour.

> The total labour-power of society, which is manifested in the values of the world of commodities counts here as one homogeneous mass of human labour-power, although composed of innumerable individual units of labour-power. Each of these units is the same as any other, to the extent that it has the character of a socially average unit of labour-power and acts as such; that is only needs, in order to produce a commodity, the labour time which is necessary on an average, or in other words is socially necessary.[115]

But this average labour represents itself a size, given only for a determined society in determined conditions of time and place. 'Simple average labour, it is true, varies in character in different countries and at different cultural epochs, but in a particular society it is given'.[116]

Even more determined Marx speaks on this in the chapter on national differences of wages. *This kind* of differences represent themselves, in our opinion, the decisive mark on which the economic split into internal and external has to be made, since the in our epoch most potent factor of international relations is the difference of value, conditioned by the different situation of the productive forces in different countries. *An external market is, thus, the market of a country standing on a different stage of development of the productive forces*. It is self-evident that with a determined level of productive forces it can only be about average statistical observations.

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[115] Marx 1976b, p. 129.
[116] Marx 1976b, p. 135.

When comparing the level of productivity in different countries some difficulty may arise, which, however, is of *minimal* hindrance. Labour productivity is a *natural*, and not a *value* indicator. It serves only as a *basis* for measuring value. Whence it follows that a comparison of labour productivity is possible only within strictly *homogeneous* branches of production. Meanwhile the economy of an entire country is a plexus of various branches of production. What coefficient can express the relation of productivity in two or more countries? Modern statistics easily cope with this task by bringing to a common denominator diverse phenomena with the help of index averages. It is enough to know the ratio by individual branches, in order with their help to construct an abstract coefficient (a total index), which expresses the ratio of productivity of *groups of branches of the economy* in two or several countries. So is measured, for example, the movement of productivity of a national economy *over time*.[117] This method is not applicable, however, in cases where a particular branch is represented in one country but not in another. We think that it is much more convenient to use a different 'total index', introduced in economic science by Marx, namely the average organic composition of social capital. The composition of capital serves in Marx as instrument for the comparison of the *relative productivity* of labour not only within the confines of homogeneous branches, but also between different branches, for example between industry and agriculture. Of modern statisticians Smith-Fal'kner pays great attention to this issue.[118] It is necessary here to note in passing, that in this method of comparison the concept of 'organic composition of capital' bares also on those forms of economy that are not capitalist in the strict sense (peasant, artisan, and so on). This does not at all contradict Marxism. Marx says in one place that under the domination of the capitalist economic system categories, inherent to the latter, get a *reflection* also in pre-capitalist forms, although they here serve with a different social content. This gives the right, with a certain reserve, to extend the application of capitalist categories beyond the limits of capitalist relations, inasmuch as the matter is limited to a narrow-special question.

It can be argued that our proposed distinction of internal and external market in terms of productivity represents a step backwards compared with the former division by social-economic structure, because it replaces a social by a technical approach. This admonition is wrong for two reasons. First, the division by organic composition of social capital is *an economic, and not a technical division* (that is, it includes in itself the moment of social

[117][Even if an index of manufacturing production (industrial production index) takes only the ouput (with a certain base year set equal to 100), already the calculation of this output faces various methodological problems (not to mention the issue of measuring services).]

[118] See for example Smith-Fal'kner 1923, 1926, and so on.

relations). Marx frequently uses this feature, comparing advanced and colonial countries. Labour productivity itself is a function of social relations. Second, it is wrong to think that the division of economic forms by structure is only possible in the type of *solid* oppositions of 'capitalism', 'feudalism', 'natural-patriarchal' system and so on. Inside each of these systems are in turn various stages and degrees, characterised by a diverse nature of social relations. 'Commercial', 'industrial', 'financial' capital are profoundly different from each other forms of social relations, within the same broad concept of 'capitalism'. Meanwhile, the old division of the market along the line of 'capitalist market' and 'market of third person' is clearly insufficient to cover the difference of this second order. The interrelation between a modern country of financial capital and an 'industrial' (in the narrow sense of the word) country is almost as heterogeneous, as the relation with the third person. That is why we believe, that the classification by the level of development of productive forces is able to better embrace the diversity of the phenomena of international economic relations, than a classification by structural features. It goes without saying that the latter classification hereby does not disappear. For some purposes it may be quite suitable.

In this way we find the key to solve the question about the relations between the single, national and world economy. In economic literature there is a tendency to reduce this threefold division into a twofold. Some economists (mainly, representatives of the German historical school – Bücher, Schmoller, Sombart and so on) simply obliterate world economy, not recognising for it any right to exist. They recognise world exchange as a secondary thing from the perspective of the national economy. The world market is called on only to fill 'gaps' in the national economic organism. 'National economy' – that is the centre, around which the world turns... and the historical school of national economy. Richard Calwer defends the same viewpoint somewhat vaguer.[119] The world economy, in his opinion, is not an 'autonomous organism', existing alongside national economic organisms, since it lacks existential features of an organism: strict partition and closely interrelated parts. Individual national economies are still too autonomous in order that they can be considered as members of a world economic organism. Therefore, one can more likely talk about a 'world market economy' (*Weltmarktwirtschaft*) than about a world economy. That different countries are dissimilarly embroiled in world economic circulation – this is true (this different degree of participation springs in the eye, if one takes the percentage of external

[119] [Discussed in Harms 1912, pp. 58 and following. Calwer was a nationalist, expelled from the SPD in 1909. Such a national focus cannot be ascribed to the leaders of the Second International – to quote but one: 'The term "world's economy" is taking the place of "national economy" (*Wir sprechen, im Gegensatz zur Nationalwirtschaft, von der Weltwirtschaft*): an increasing significance is attaching to it, seeing that upon it depends the well-being and prosperity of individual nations' (Bebel 1904, p. 350).]

exchange of each country in relation to its total commodity exchange). But after all, also inside national economies there are large differences in the 'marketability', for example, between peasant and factory production. Moreover, a small percentage of internal exchange in respect to all commodity circulation can prove to be very big for individual important branches of industry, drawn into the world economy. On the other hand, the larger the national-economic unit, the larger *under any conditions* will be the share of its internal circulation, compared with external circulation. From this, however, it does not at all follow, that the stronger countries are less important members of the world economy. Finally, inasmuch as the world market expands under the influence of increased production, it is always necessary to remember, that also under expanded reproduction the greatest part of products fits into the frame of simple reproduction. From this fact that profit is a comparatively small share relative to the entire annual products, only a crude ignoramus can make a conclusion about the negligible significance of profit in the system of capitalist economy. The same can be said about the argument, denying the existence of the world economy on the basis that the share of foreign trade is less than the share of domestic trade in national-economic circulation. To recognise the existence of the world *market, as an economic necessity*, and at the same time deny the existence of the world *economy* – is doubly ridiculous.

Rosa Luxemburg exposed this, if one may say, 'theory' to caustic and cruel, but deserved ridicule in her *Introduction to Political Economy*. However, she herself also holds the standpoint of a twofold formula with the only difference, that instead of world economy she considers it necessary to cross out 'national economy'. 'The first thing we must ask, however, is whether there really is such a thing as the economy of a nation. Do nations each conduct a separate household, a closed economic life?', Rosa asks, and answers both these questions in the negative.[120]

Finally, in Russian literature Bukharin reduces the threefold division to a twofold by removing the single economy.

'Every one of the capitalistically advanced "national economies" has turned into some kind of a "national" trust'.[121] Even more determinedly Bukharin speaks out in his *Economics of the Transition Period*.

[120] Luxemburg 2013, p. 98.
[121] Bukharin 1972a, p. 108.

> The units which make up the system of the modern world economy are not the individual enterprises, but indicate complexes, 'state capitalist trusts'. ... The capitalist 'national economy' has changed from an *irrational* system into a *rational* organization, from a non-subject economy into an economic subject. ... [But] neither the anarchy of capitalist production in general, nor the competition of *capitalist commodity-producers,* have been in any way destroyed.
>
> Not only do these phenomena still exist, they have even intensified by being reproduced within the frame of a *world* economy. ... The *commodity* economy does not disappear for good, even though within a country it either dies off or is considerably curtailed by being replaced with organized distribution. Having ceased to be "national" the commodity market effectively, in fact, merely becomes a world market.[122]

In the bourgeois literature, recognising the existence of world economy, attempts are made to bring between national and world economy not an economic, but a juridical border. To phenomena of the world economy relate only those group relations which undergo regulation and are regulated on the basis of international agreements, conventions and so on. It is understood, that the chief exponent of this position must be a German professor, who in general cannot imagine any relation without sanction from above. This is Bernard Harms. Here is his definition: 'The world economy is the set of connections and interactions between the individual economies of the globe, arising from highly developed means of communication and regulated and upheld by international agreements'.[123] About the general mindset of Harms this statement is enough evidence: 'We need to keep away of grounding the science of world economy on the foundation of "capitalism", no matter how comprehensible it may seem'.[124]

There is still another point of view in economic literature, which, recognising the existence of the world economy along with the national economy, denies however therewith the existence of any specific features in the world economy, which would require the creation of a special economic theory of international relations. The problem of 'international exchange', from this point of view, exists only, inasmuch as questions of policy are wedded to economic

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[122] Bukharin 1979, pp. 62–3.
[123] Harms 1912, p. 383.
[124] Harms [reference not given]. [The Ukrainian version of Dashkovsky's article ends here with the paragraph: 'From this viewpoint, which will be developed by us in the next article – from the viewpoint of value relations – it is necessary to maintain the threefold division: single, national, world economy; it requires only modification in a way appropiate to the meaning of these terms'. This next article did not appear in Ukrainian.]

issues, inasmuch as 'international' relations are at one and the same time also '*inter-governmental*' relations. In Russian literature the advocate of these views is Struve.[125] The case is, however, 'quite the contrary'. Precisely when questions of international economy are approached in terms of political borders, the very problem disappears. From the economic viewpoint nothing decisively changed from the fact that, for example, before the war the Ruhr and Lorraine were included in one and the same political body, [but] now are separated by a border. A theory of economic relations between different economic organisms acquires sense only if these organisms represent different economic types or different stages of economic development.[126] We shall later see that set on such foundation, this theory, not being in opposition to the general theory of exchange and value, requires, however, in order to agree with the latter, some extension, refinement and recasting of the concepts established in economic literature. It is correct to indicate that also inside one or other country, between different territories there is a relation resembling the so-called 'international' relation. We also count them as 'international' (in the conventional sense, it is difficult to pick up another term).[127] The one is so little studied theoretically, as the other. This circumstance does not narrow the frame of theory, but, on the contrary, opens a rich field for it.

Our brief overview shows what discordance exists in this matter. Risking to multiply this discordance, we believe it is necessary to discard all previous attempts at simplification of the classification and stay with the old division.

As concerns Luxemburg, she, in our opinion, was a little too quick to abolish the 'national economy' on the grounds that nations do not currently lead an insular economy.[128] This is insufficient justification. After all, in the same way one can 'prove', that also 'single economies' have disappeared, inasmuch as they are even less isolated from other economies. True, the principal difference between 'national economy', taken in relation to the world economy, and individual economies, taken in relation to the national economy, is that the former is a relation of two anarchic systems ('pseudo-economies' in Struve's terminology), whereas the latter is a relation of organised units to a non-organised whole.

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[125] [Pjotr Struve, initially a so-called 'Legal Marxist', thereafter a liberal. Perhaps the reference is to Struve's 1915 brochure, which is also quoted by Petrov (our volume's chapter three).]

[126] [This and the preceding line two back are quoted by Petrov (see introduction to chapter three in this volume), but he does not mention Dashkovsky's example of the annexation of Alsace-Lorraine, and misses the point, that the study of international economy should not be *merely* based on (shifting) political borders. Petrov also tries to group him with Rosa Luxemburg, despite Dashkovsky's criticism of her here above.]

[127] [In Russian the word 'interregional' did not exist yet.
This view is also endorsed by Grossman (2021), following Otto Bauer on the relation (within Bohemia) between the German (Sudetenland) and Czech territories.]

[128] [Dashkovsky's view here is approvingly referenced in Tsagolov 1930, p. 130.]

But this distinction lies on another plane and in this regard is irrelevant.

It is important to specify that lack of insularity does not yet mean liquidation of a given economic complex. The national economy would cease to exist, as such, only in case the development of world economic relations was to have completely erased any difference between countries, whether it be the difference in the *structure of economic relations*, or in the condition of the productive forces. But both kinds of differences still continue to exist, although they have a tendency to weaken, insofar as capitalism becomes the general form of economy (we have in mind here the ascending line of development of capitalism, and not the epoch of its decadence),[129] – but 'in proportion as capitalist production is developed in a country, so, in the same proportion, do the national intensity and productivity of labour there rise above the international level'.[130] So long as these differences exist, the 'national economy' also exists, as a real aggregate, distinct from other economic complexes and at the same time found with them in regular economic relations of exchange and so on.

[129] [According to Laurat, in the period before World War One, that is prior to the domination of 'organised capitalism' and protectionism, there existed even international prices of production (that is inter-branch transfer of surplus value) (Laurat 1951, pp. 46–8). France, due to its lower organic composition of (social) capital, would thus in this respect have been a tributary to England and Germany (also compare the chapter 'Exploitation of One Country by Another' in Laurat 1931). Two decades before the war (and so arguably during capitalism's ascendence), Engels could still write that in 'the present-day world ... [the] prices of production prevail [*Geltung haben*] in international and wholesale trade' (Marx 1981, p. 1042).
After World War Two, with the prospect of a resumption of free movement of capital, Laurat wondered about the future evolution of the world economy by 1970: 'Throughout the entire period of ascendant capitalism, differential [that is intra-branch, super-] profits from competition with weaker industrialist countries had been one of the main factors which countered the fall in the rate of profit and made it only a *tendency*. [...] The question now arises if the disappearance of this damper element will not inaugurate, for world capitalism, a new period of long depression, more disastrous than that of 1873–95, and of which the crisis of 1929–37, followed in 1938 by a new relapse, has already given a foretaste' (Laurat 1951, pp. 56–7).]

[130] Marx 1976b, p. 702.

Chapter Two

International Exchange and the Law of Value (1927)[131]

Isaak Dashkovsky

Under this title, two pieces appeared in *Pzm*'s April and May 1927 issues which we present as a single chapter. There is no Ukrainian version. This chapter is a continuation of the previous article that addressed the distinctive capitalist creation of the world market, which was occurring within a still largely non-capitalist world.[132] We could have presented all of it instead in one large chapter (which could be titled 'World Economy and the Law of Value' – as Dashkovsky did in Ukrainian for the first article, already conceiving of it as just the first instalment of a larger work), or as three separate chapters; however, we opt for this presentation on the grounds that the latter two were published on dates closer to each other than the first one, and the latter two share the same title. Dashkovsky's text itself refers to them as the second chapter and the conclusion.

This chapter (as created by us) has four sections:

1) The law of value in the national and world economy (this was the second instalment which due to our presentation we turn into the longest section, and which we further divide into four subsections);

2) Money and international commodity circulation (we created subsections here too);

3) On the mobility and the transfer of productive forces;

4) The influence of capitalist relations on the nature of international exchange and on the distribution of productive forces (we created subsections here too).

In the first three sections of this text, Dashkovsky does not analyse the strict distinctiveness of capital (capitalist relations), since international exchange in the 1920s also involved non-capitalist regions.[133] Such analysis is nevertheless relevant to (pure) capitalist production, but only in its general aspects, which it shares with non-

[131] Editorial note [of *Pod znamenem marksizma*]: The editorial board does not share some of the positions of Dashkovsky's article. [The *Pzm*-editors prefaced both pieces with this note. Second piece starts at section two ('Money and international commodity circulation'). This type of editorial caveat was not made for the previous article. Probably it is due to Dashkovsky's explicit criticism of Marx (though on the basis of Marx).]

[132] See Dashkovsky's passages in the previous chapter on pre-capitalist economy or simple (simply) commodity production. And it is also a topic in chapter four. We will defend and dwell on this term in a separate essay (see chapter twelve), for the sake of those readers who are not already convinced of this concept.

[133] Dashkovsky might have other reasons, of lesser importance perhaps. Maybe he indulges the simplifying national perspective, where the subjects in foreign trade are abstract 'national economies' who lose or gain amounts of labour, instead of capitalists interested in profit in terms of amounts of money. Without acknowledgement of the existence of distinct national economies, there would be no sense of speaking of international trade as a specific field.

capitalist commodity production. In the previous chapter, Dashkovsky already justified the right 'to extend the application of capitalist categories beyond the limits of capitalist relations' (namely, to pre-capitalist economies). Right at the beginning of the present text, Dashkovsky places scare quotes around the word 'capital', noting: 'We take this concept in a "material" sense, as an aggregate of means of production and labour force'. This means that he approaches 'capital' from the perspective of value in general and not as capital in the proper sense (capitalist property, wage labour). Dashkovsky mentions the law of value only in the heading of section one, and discusses it there, so not in all subsequent sections (which the chapter's main title might suggest).

Dashkovsky's initial inattention to the distinctiveness of capital makes for a didactic prologue on the theory of value in general, although that is not his goal. The law of value as it exists in simple commodity production experiences a 'specific (or peculiar) development' (Marx), or as Engels instead put it, a 'modification', when the capitalist production-form unfolds.

> The conversion of values [market values] into cost prices [prices of production] is only the consequence and result of the development of capitalist production. Originally commodities are (on the average) sold at their values.[134]

> Marx's law of value applies generally [*allgemein*],[135] as much as any economic laws do apply, for the entire period of simple commodity production, i.e. up to the time at which this undergoes a modification[136] [*eine Modifikation erfährt*] by the onset of the capitalist form of production. Up till then, prices gravitate to the values determined by Marx's law and oscillate around these values [...].[137]

Dashkovsky's avoidance of writing 'the *Capitalist* Law of Value' in the heading of section one (and even in the title for the entire chapter) is likely deliberate. That he believed in the general law of value, is proven by what he wrote elsewhere (basically just paraphrasing Marx):

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[134] Marx 1989a, pp. 542–3.
[135] Our adjustment. Official translation was 'universally'.
[136] The term 'modification' also has significance in the dispute (Dashkovsky, Petrov and Tsagolov) about how Marx (and Ricardo) viewed the application of the law of value on the international level. For Dashkovsky, Marx's term there meant 'violation' (*narushenie*).
[137] Supplement of Engels in Marx 1981, p. 1037.

> [T]he exchange of commodities according to value is not only an abstraction, a theoretical assumption, but also a historical fact. In a society of independent commodity-owners, commodities are exchanged according to value. When the product of labour belongs to the worker or to a group of workers, there is not any tendency to equalise the rate of profit, because the category of profit itself is absent. The value of the product then consists of the individual expenditure of means of production and labour. The same thing applies to international commodity exchange, when there exist national differences in profit rates. What is necessary for exchange according to value in a society of independent commodity-owners is only: first, regularity of exchange, second, the correspondence of the size of production with social demands and, third, the absence of monopolies.[138]

Marx too did not dwell on the price of production in volume one of *Capital*, yet he there certainly did analyse distinctive capitalist phenomena (for instance wages). In case of Dashkovsky, his initial exclusion of specificities of capital is strictly enforced, and not a mere matter of presentation. So do not expect that Dashkovsky will talk about wages. The indignance about the harmful effect of international trade on poor countries was (and is) usually about countries with a large sector that is precisely not capitalist. Hence if Dashkovsky had taken a pure capitalist model for the sake of theoretical simplification and solely focused on capital in its distinctiveness, he would have overlooked a very salient social problematic. And do not expect (for most of the text) that Dashkovsky will talk about the distribution of surplus value between branches (turning values into prices of production), that obtains a general rate of profit, which is the mechanism that Marxists usually focus on in the topic of international exchange. We will address that mechanism in section five of our own essay.

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[138] Dashkovsky 1923, pp. 105–6. This is a paraphrase of Marx 1981, pp. 278–9. Marx himself makes the comparison of the general law of value in pre-capitalist commodity production to its operation in international trade (different profit rates in branches, transfer of means of production between branches only with difficulty). A possible extrapolation from the point made here that the law of value on the international level is the general law of value without modification, in the sense of no price of production, would be that there is no modification of it at all on the international level (unlike Marx' statements elsewhere).

Dashkovsky holds that the concept of value is identical to market value, and not to the individual value.[139] We find this definition of value also in his course on political economy:

> The means of measuring amounts of labour is labour *time*, which is just as homogeneous and indifferent in all its parts, as abstract human labour is. However, not every labour time can serve as instrument for measuring labour and the value of commodities. Different workers can spend different amounts of time and labour on the production of one and the same commodity, depending on their individual strength and abilities, [depending] on the means [of production] they use, [on] the conditions in which they have to work, and so on. What labour time should be taken as the basis? It is obvious that commodities produced by different workers under different conditions must have in exchange the same value, since the market is indifferent to the conditions under which this or that individual unit of a commodity was produced.
>
> Society as a whole – and only from a social, objective point of view do we determine value – can take into account (not consciously, of course, but spontaneously) only the whole sum of expended labour and working time in a given industry and the whole sum of created commodities [of the given type]. It is the average amount of labour time that falls on an individual unit of a commodity, that also will determine its social, market value (as opposed to the individual [value], that is, the factually expended labour time). We call this labour time *socially necessary labour time*. If commodities are sold on the market, [that are simultaneously] produced under the best, average, and worst conditions of production, then the socially necessary labour time will most closely coincide with the individual value of those commodities that are produced under the *most widespread* conditions of production. These conditions of production usually coincide with the average [conditions].[140]

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[139] Market value is alternatively called the general [*allgemeine*] value, common [*gemeinschaftliche*] value, or 'social value' (for instance Marx 1989a, pp. 428, 429; Marx 1991, p. 380). By contrast, the quantity of labour a particular producer expends for a commodity is called its 'individual value'. 'What we have said here of market value holds also for the price of production, as soon as this takes the place of market value' (Marx 1981, p. 280). So, in capitalism Marx designates this distinction by the terms 'individual price of production' and 'market price of production' (or 'general social price of production').

[140] Dashkovsky 1923, p. 13, our translation.

Dashkovsky's understanding of the general law of value, that Engels mentioned, thus entails *not* that value is determined by the labour (time) contained in a particular commodity-unit or by its expenditure by a particular producer for a commodity-type, but rather that value is determined by the labour time which producers on *average* expend for a commodity-type.[141] That value is called its 'market value'. For the particular producers of the same commodity-type, market value involves an unequal exchange of labour, which is Dashkovsky's focus in his third point (subsection three of section one). This is not a modification of the law of value. Dashkovsky thus criticises Marx's statement (or rather multiple statements) with regard to the international level that this mechanism would constitute a modification of the law.[142] Consequently, he also criticises the one place where Marx used the expression of a '*false* social value'. The existence of unequal labour exchange under the general law of value means that due the action of the law of value itself, some of the commodity producers acquire more money than others. Most Soviet economists shared the interpretation of market value as identical to the basic concept of value, although not everyone.[143] Here (and in

[141] 'The real value of a commodity, however, is not its individual [value], but its social value; that is to say, its value is not measured by the labour-time that the article costs the producer in each individual case, but by the labour-time socially required for its production' (Marx 1976b, p. 434). Johann Gustav Vogt (1843–1920), a forgotten Marx-commentator and communist, rejected this claim of Marx of social (or market) value, considering it a compromise of the law of value (see Vogt 1893, pp. 1150, 1249). Vogt upheld that individual value of the most advanced producer (with highest composition of capital) is the actual value (real labour time) as it showed the progressive trend of competition (see Vogt 1893, p. 1264). On the international level, Vogt recognised that competition's effect was not instant, through his comparison within one branch (construction) between advanced American and backward German producers. He held that the rate of proft within the branch was equal, because people in Germany continued paying the exchange-value of a house at the old lower productivity, instead of the real value determined by the most advanced producer in America (see Vogt 1893, p. 1266–67). For Vogt, value is the (individual) labour time of producers with the most advanced technical conditions, and not a vague average like Conrad Schmidt and Marx claim (Vogt argues against 'average value', which is the same as Marx's 'market value'). Based on his other arguments, Vogt (unlike Schmidt and Marx) offered that backward branches do not sell their products at prices (of production) below their value (see Vogt 1893, p. 1286). The implication of Vogt's concept of value for international trade would be that there is no unequal exchange of labour.

[142] One other Marxist implicitly criticised this statement of Marx of the existence of a modification of the law of value on the international level (see Block 1988, p. 24). Block tried to save the statement by locating the modification elsewhere, namely in the higher (or slower) 'viscosity' in adaptation of labour productivities on the international level, than within a country (see Block 1988, p. 26). Still, in one place he seems to wrongly indicate that for Marx the value of a commodity of a more (technically) productive enterprise has fallen or is of a lower value, which suggests that Block takes individual value as real value (see Block 1988, p. 22). In point three Dashkovsky will stress, that for Marx the value of such a commodity stays the same, because real value is the market value, and not the individual value.

[143] The exception is Poznjakov (1929b), who interpreted the category of market value instead for Marx would have meant market *exchange*-value. He broached this topic on the back of his debate on the theory of rent in the preceding couple of years with Ljubimov. Lev Jakovlevich Ljubimov (born Liberman 1879–1937) in 1930 published another book (*Ocherki teorii zemel'noj renty*, pp. 368) on rent in which he criticised Poznjakov (p. 311), but we cannot say if he dealt with market value as the full book is unavailable to us. In the discussion of Poznjakov's lectures on market value (account see Poznjakov 1929a), Laptev stated that 'market value is not identical with price [nor market price]'; a certain V. Bogdanov resolutely objected that Poznjakov misunderstood the elementary positions of the theory of value (even worse than Rubin); Ostrovitjanov said that Poznjakov misunderstood individual value, and countered that Marx's definition of socially-necessary

the next subsection four) Dashkovsky's perspective is that value is international value, and that it is market value, whereas national values are like individual values (in relation to market value).[144] But as Marx does not define his basic concept of value as individual value, then it seems the claim of the existence of various national values is not really about national 'values', insofar as individual value is not value (as defined by Marx). For lack of a better term though, Dashkovsky uses the term national 'value'. We deduce from Dashkovsky's text that the operation of merely the general law of value does not necessarily entail an equal exchange of labour, and so it does not have a fair or pleasant character, even leaving aside the distinctive capitalist-labour relation. We quote a key passage from *Capital* volume three on foreign trade where Marx uses the term 'individual value', as perhaps Dashkovsky assumed his readers were so familiar with it, that quoting it was superfluous for him:

> Capital invested in foreign trade can yield a higher rate of profit, firstly because it competes with commodities produced by other countries with less developed production facilities, so that the more advanced country sells its goods *above* their value, even though still more cheaply than its competitors. In so far as the labour of the more advanced country is valorised here as labour of a higher specific weight > just as within a country when a manufacturer employs a new invention which has not yet come into general use < the profit rate rises, since labour that is not paid at its higher specific weight is nevertheless sold as such. The same relationship may hold towards the country to which goods are exported and from which goods are imported: i.e., such a country gives more labour in return than it receives, even though it still receives the goods in question more cheaply than it could produce them itself. In the same way, a manufacturer who makes use of a new invention before this has become general sells more cheaply than his competitors and yet still sells *above* the *individual* value of his commodity, valorising the specifically higher

labour time (value) takes into account average technical conditions of production (and the category market value is not exchange value, nor market price). Poznjakov replied that Ostrovitjanov's position leads to the vulgar theory that capital's productivity creates value, and so on (we do not give a full summary). Poznjakov's concern was similar to the earlier discussed Vogt, but Vogt was upfront that he simply disagreed with Marx. There is a vague echo of Poznjakov's position in the remark of a Japanese Marxist, that in writings on international value this concept should be more precisely called international exchange-value.

[144] Marxists have understood international value as market value, for example Thal 1972, p. 32.

> productivity of the labour he employs as surplus labour. He thus realises a surplus profit.[145]

Our emphasis here is on the fact that Marx writes 'value' ('the more advanced country sells its goods above their *value*') while he means (or it is about) 'individual value', which, based on our preceding explanation, we know for Marx is not value in the strict sense. The law of value means commodities are sold *at* their value, so when Marx here writes that the more advanced country's goods are sold '*above* their value', this implies a view about a violation or alteration of the law of value. It is this slip-up which supports Dashkovsky's observation that Marx, as to international trade, wrote mainly in terms of individual–national 'values' (and not the market–international value). Dashkovsky observes that this is the framework behind Marx's statement about a modification of the law of value on the international level, and this is what he openly criticises Marx for. Again, Marx's normal concept of value is social value, and he does not designate the selling at a price below the social (or market) value as some kind of a 'modification' of the law of value: a '*surplus-value* is created for [the individual capitalist] as soon as the *individual* value of his product falls *below* its social [or market] value and can be sold accordingly at a price *above* its individual value'.[146] Therefore, Marx, for the sake of consistency, should not have used the word modification either when it is about selling at a price below the market (world) value on the international level. The same mechanism operates.

What consequences does all this conceptual heavy-lifting have for empirical research? What is at stake behind Dashkovsky's third subsection (of section one)? In our opinion, not much. The thesis of Marx (defended by Dashkovsky here), that the more productive labour counts as more intensive (as a higher value than the labour really expended), is only empirically meaningful under the condition that the country with the most (or more) productive labour, expends it on a kind of commodity in which other countries in the world are at least still numerous enough in the world market for

[145] Marx 2015, pp. 341–2, which is a translation based on the original manuscript (for original manuscript in German, see Marx 2012a, pp. 306–7). For a previous translation based on Engels' editing, see Marx 1981, pp. 344–5. We have not made the changes that would in our view make it fit more precisely with Marx's original. For extensive analysis of this passage see section three in our own essay. Bukharin's comment on this passage: '[A]dditional profit [is essentially the excess of] the social value of the goods (understanding under "society" world capitalism as a united whole) [above] their individual value (understanding under "individual" the "national economy")' (Bukharin 1972a, p. 84). It is Bukharin himself though who introduces here the phrase 'social value' (the phrase is not in the Marx-passage). His comment indicates that Bukharin had a concept of 'world value', like Dashkovsky.

[146] Marx 1976b, pp. 1023–24.

influencing world value, that is they are still capable of selling enough commodities on the world market, still acting as competitors with the most productive country. This is usually about commodities of a lesser-technological kind, that also already have existed a long time and can be produced by a country of any level of productivity. Marx's thesis is only empirically relevant if the less productive national labours are predominant enough on the world market to set the average world value. That is, Marx's thesis rests on the assumption that world competition for the particular kind of commodity is very present and strong (strong enough to withstand the success of a more productive country influencing the existing world value). Paradoxically, his thesis is valid only if one assumes that the less-productive competitors sell enough commodities of this kind on the world market so that less productive labour determines the world value (which the more productive country can undersell and thus make its extra-profit through). The condition for the validity of Marx's thesis (of an extra-profit for the more productive labour) is not, that competition 'in general' is not strong enough on the world market, but rather, that competition is already numerous or resistant enough on the world market (so that the more productive method is unable to immediately generalise itself). The reason the more productive method cannot immediately generalise itself is because the less productive competitors predominate the percentage of sales on the world market, that is they are competitive. The more productive country is not competitive enough to displace the less competitive countries. This does not mean there is a 'lack of competition in general' on the world market. The lack of competition lies with the more productive country. There is more than enough competition from the less productive countries. When this condition exists, namely that less productive competitors on the world market are numerous enough to withstand immediate generalisaton of the more productive labour, and so we find that it is possible for the more productive country to obtain an extra-profit, then, however, we are making the assumption, that even in the production of a kind of commodity that is highly-technological, the less productive countries predominate in the world market. Instead, for the particular kind of highly-technological commodities, in our opinion we should make the more realistic assumption that the most (or more) productive country predominates on the world market, and this implies that the most productive country does *not* make an extra-profit given that it (with its value expenditure) determines the world value. So, the thesis (that more productive counts as more intensive) has no relevance for the

empirical-scientific analysis of the world market, if we see that in reality only the more productive country predominates the world market as concerns highly-technological commodities. The less productive countries simply never even produced the highly-technological kind of commodities. These are newer (more recently invented) commodities. The supply of these newer commodities by definition is not delivered by producers working with a less productive method, as there did not yet exist a method of producing the new kind of commodity. There is thus also no predomination on the world market by established, less productive suppliers. Again, what would be an empirical-tangible fact, namely the existence of a surplus profit for the most productive country, in our opinion is absent when we consider realistic conditions.

Just a brief clarification on Dashkovsky's invention of the term *specific valu*e, which he only uses in this section and is of no great importance. This term refers not to the value of a single commodity, but to the summation of all values produced by a group of companies with the same level of productivity in a branch. Let us illustrate. In a branch there are 10 companies all with the same level of productivity, and each produces 20 commodities. There are in total 600 hours worked, which is the total value of the branch. The (market) value of a commodity in this branch thus is (600/200=) 3 hours (we can equate this to 3 grams of gold). Each company works 60 hours. The individual value in this case is equal to the market value (both 3 hours). The *specific value* is 200 X 600/200 = 600 hours. In this case the total value is equal to the specific value.

Now instead suppose the branch has 2 companies with a level of productivity 75% above that of the remaining 8. That is, these 2 companies produce each 35 (instead of 20) commodities. In this case the (market) value of a commodity in the branch will be 600/230= 2,67 hours (or 2,67 grams of gold). Let us designate the two more productive companies as group A, and the remaining 8 companies as group B. The *specific value* of group A is 70 X 600/230= 182,6 hours. And the *specific value* of group B is 160 x 600/230 = 417,4 hours. Summing up the specific values of A and B gets the total value of 600 hours. The individual value of a commodity of group A is 120 hours / 70 commodities = 1,71 hours. The individual value of a commodity of group B is 480/160 = 3 hours. Thus, the individual values of A and B both differ from the market value of 2,67 hours (A's individual value is below it, while B's individual value is above it). The summation of the individual value of commodities of A gets 120 hours, yet A's specific value is greater, namely 182,6 hours. We note that the

percentage of this increase (from 120 to 182,6) was not by the full 75% of the productivity increase of group A, since the market value too changed (declining from 3 hours to 2,67 hours). The seemingly 'controversial' observation (for the labour theory of value) is that there is any increase of value at all (here namely by just over 50%), given that the amount of labour remained unchanged (0% increase, still the same 120 hours in group A). The summation of B's individual values gets 480 hours, yet B's specific value is smaller, namely 417,4 hours.

Dashkovsky only turns to the distinctiveness of capital in the concluding section four, when he answers the question of the existence of an international 'price of production'. He rejects its existence, in his era of writing. The reason he claims this price of production is non-existent though, is not based on the typical argument of alleged capital and labour immobility. In section three, on mobility, he had ruled out the ideas that the 'growth of fixed capital erects such obstacles, which [...] impede the international transfer of productive forces, giving thereby a special colour to international exchange', and that labour forces have insufficient *capacity* for mobility between countries.[147] Its non-existence is for him not due to an alleged absence of international mobility as such of capital and labour, but rather due to the mobility's 'direction', that is the nature or type of movement. Between national economies of a different type, defined as having different organic compositions of social (total) capital, the movement is set in one 'direction' (it is not 'full and all-sided'), or, perhaps we can say, it is a fixated, unbalanced, perturbed kind of movement. When Dashkovsky refers to the lower organic composition of capital of backward national economies, he understands by this also (but not exclusively) simple commodity or not fully capitalist economies. In case of such a non-capitalist country it is evident that it is unable to export capital like the capitalist economies do. Such countries according to Dashkovsky still existed in the era he was writing in, and something similar is maintained even for today's world for example by Sandemose. Not the fact by itself of countries having a different organic composition of 'capital', but more importantly, this in conjunction with the fact of different national profit rates, gives the international movement of capital and labour a form that is not typically, nor purely capitalist. The law of value manifests itself here in the particular form of this

[147] See Marx 1976b, p. 307. Marx's explanation there is of individual producers, but Marx does not explicitly mention the concept of organic composition of capital (of these individual producers).

contradiction, of this concrete historical situation of the not uniformly, nor exclusively capitalist world. The law of value itself is not changed, but merely the character of its operation is adapted. As an issue of theory, this merely means there is no international price of production. But Dashkovsky 'translates' this dry theoretical point into a Marxist investigation of the resulting international distribution of capital and labour, showing this contradiction has its harmful effects in reality, just like the two better-known Marxist contradictions, between use-value and exchange-value, and between production and realisation, which he had analysed in the previous chapter.

We now mostly will discuss the first subsection in section one, on differences in the organic composition of capital within one branch of production. Dashkovsky separates this issue from the issue of productivity differences of an objective kind (technical and natural), which he discusses in point three. So, in point one he assumes there are no productivity differences due to technology, while the organic composition of capitals nevertheless differs. This is his theoretical separation of concepts.

The concept of a branch of production usually occurs in Marxist writings within the context where the assumption or focus is on an *average* composition, so differences within a branch are discarded or taken as minimal. This is based on the assumption of a national framework, that the branch of production exists inside one country. As to organic composition of capital, this usually in Marxist writings is named in the context of discussion about different branches of production, each of whose *average* organic composition of capital admittedly differs from the others', but in that case it is not about organic composition of capital of (the same) concrete producers. The context there is about the transfer of surplus value among different branches of production, which forms an equal general rate of profit. We over-emphasise; Dashkovsky is not thinking about transfer of surplus value; he does not even think of the category of profit, and so also not of a difference in profit rates.

Dashkovsky makes a couple of distracting comments as to the price of an individual product; the price can be the same (under 'advantageous conditions of competition'), or the price can differ ('greater number of products ... more often than not go hand in hand with lower prices of these products [individually]'), – but these are not relevant to his argument. Point one is about the transfer (*Übertragung*) of the value of constant capital into the products. This is a transfer or circulation of value that

happens without monetary exchange or market, rather it happens merely during production.[148]

Like Marx, Dashkovsky compares the resulting *different* amounts of the *total* product, of the same kind, produced by 'capitals' of different organic composition during the *same* time.[149] It seems a familiar point, but for definite clarification let us proceed in another way. Let us make the comparison instead by one commodity-unit, that is at the level of an individual (or the same determined amount of) product. And let us regard the difference in the transferred value to each individual product equals only that of the used-up machinery during operation on that single product, or more precisely that the difference in constant capital lies only in the wear and tear of machinery (and not in the different amounts of raw materials that get processed or speed of capital turnover). Let us assume that each producer stops after having produced this same determined amount. This means that there would be a different, lesser labour time for the worker (less variable capital in terms of labour-time) who is working with the constant capital that transfers greater value. Dashkovsky does not explicitly compare the values of the individual product, so let us make it explicit that the values of the individual product are the *same*, even though the duration of labour time of the compared workers observably *differs*, and we did not use the comparison by observably different amounts of *total* product. We state that the value of the workers' individual commodity is the same, solely because the worker who spent less time did so engaging a machinery that transfers more value (wear and tear) into that individual product or a defined amount of product. This single same value of an individual product (produced by capitals with a different organic composition) is perhaps not so illustrative, as visibly different amounts of total products are. Dashkovsky in his first argument did not spell out that the individual products have the same value. But that is his claim. We over-emphasise again that point one is not about the price of production, which is a category distinctive of capitalism. And it is not about market processes.

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[148]See Marx 1976b, p. 307. Marx's explanation there is of individual producers, but Marx does not explicitly mention the concept of organic composition of capital (of these individual producers).

[149]See example on Marx 1976b, p. 309. In the Marx-quote too that Dashkovsky will give, Marx does not explicitly mention the concept of organic composition of capital. Interestingly, that quote involves an Indian spinner, which seems to imply that Marx extended the validity of his point also to the case of workers who own their means of production, that is apparently a 'non-capitalist' situation. Admittedly, this artisan mode of production can belong also to the capitalist *process of production* (as distinct from the capitalist mode of production), namely as formal subsumption under capital, which existed in India (on earlier occurrences see Prabin Baishya 1997 'The Putting out System in Ancient India').

In his second argument (subsection two in section one), on labour intensity, he explicitly states the assumption: '[individual] commodities produced by different countries will have on the world market one price'. Point two thus also is not about price differences or the market process. On labour intensity see Sandemose's essay. In our view the formation of a socially average labour *intensity* seems to have a parallel in the formation of a socially average *simple* (unskilled) labour, and the latter to *abstract* labour.[150] Dashkovsky explicitly groups the issue of labour qualification (skill level) together under the umbrella of labour intensity, which we will shortly see has an important implication. By the way, an English translation in a passage on skilled labour even used the term 'intensity', although that is not the best choice: '[W]hat is the position with regard to more complicated labour which, being labour of greater intensity [*Lebendigkeit*: spiritedness] and greater specific gravity [*Gewicht*: weight], rises above the general level? This kind of labour resolves itself into simple labour put together [*zusammengesetzte*]; it is simple labour raised to a higher power [*auf höherer Potenz*], so that for example one day of skilled labour may equal three days of simple labour'.[151]

In the course of his third point (subsection three of section one), on productivity differences due to nature and technology, Dashkovsky stresses his level of abstraction is still not distinctively capitalist; 'When we here introduce instead of the terms surplus-*profits*, and so on, *the more general category* of specific *value*, then only because similar phenomena are possible also in such an economic system in which the category of profit is absent, but market exchange is preserved'; and; '*before* the prices of products of different branches line up on the line of *the price of production*, within each branch the formation occurs of the market value' (our emphasis).

In this important subsection Dashkovsky just quotes a line from a key passage from Marx's chapter on national differences of wages. That passage can be found in full in Petrov's article. Let us just add a remark on the following lines from it on labour intensity.

> In a given country, only a degree of intensity which is above the national average alters the measurement [or measure] of value [*Maß des Werts*] by the

[150] See section six in our own essay.

[151] Marx 1987b, p. 273. Also notice that Marx does not call this greater value output of skilled labour a modification of the law of value. If we adopt Dashkovsky's reasoning, neither should Marx call this (in case of more intensive labour) a modification when it occurs on the international level. Dashkovsky assumes that Marx did not regard this as a modification. One time Marx did call it a modification, but not a serious one.

> mere duration of labour-time. It is otherwise on the world market, whose integral parts are the individual countries. The average intensity of labour changes from country to country; here is it greater, there less. These national averages form a scale [*Stufenleiter*] whose unit of measurement is the average unit of universal labour.[152]

We just noted that in subsection two Dashkovsky grouped under the umbrella of 'labour intensity' also the issue of labour qualification. And so, it is no surprise that we find the same word 'scale' was used by Marx when writing on labour qualification (in *Poverty of Philosophy*):

> Does labour time, as the measure of value [*mesure de la valeur*], suppose ... that the days are *equivalent*, and that one man's day is worth as much as another's? No. Let us suppose for a moment that a jeweller's day is equivalent to three days of a weaver [thus for Marx both live in the same country] ... [The fact is that] values can be measured by labour time, in spite of the inequality of value of different working days; but to apply such a measure we must have a comparative scale [*échelle*; though the German translation has here *Maßstab*, it is fine also as *Stufenleiter*] of the different working days: it is competition that sets up this scale. Is your hour's labour worth mine? That is a question which is decided by competition. Competition, according to an American economist, determines how many days of simple labour are contained in one day's compound labour.[153]

Dashkovsky (in the previous subsection two) would hold that Marx does not really regard the issue of labour intensity on the international level as a modification of the law of value. Our implication from the present quote on the issue of labour qualification is that even though differences in labour qualification remain in existence (within a country), since Marx does not speak of a modification of the law of value in this case, Dashkovsky has justification to maintain that for Marx the issue of labour intensity does not modify the law of value internationally, even though national differences in labour intensity remain in existence on an international level.

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[152] Marx 1976b, p. 702.
[153] Marx 1976a, p. 126.

By contrast, here in subsection three, on technology and natural productivity, Dashkovsky does see Marx really speak of a modification of the law of value.

The talk about an unequal exchange of labour in this third subsection in our interpretation of Dashkovsky does not imply the existence of a *transfer of value* amongst the enterprises with different productivity in one branch (like this does exist with distribution of surplus value between branches forming prices of production).

Subsection four (of section one) has broader theoretical conclusions from the concept of world value.

In section two, Dashkovsky arrives at money in his presentation. Money existed prior to capitalism. One would expect that what he said in section one about the value of commodities should now be just applied to money, as it too is a commodity. However, unlike other commodities, money has no price, as its body is the thing expressing the price of all other commodities, already making the analysis of money's *value* seem more difficult, namely by introducing the complication of what a physical pound (a weight) of gold represents: the value of all other commodities, or just its own value? (Still relatively easy to answer: both simultaneously.) The real difficulty though for Dashkovsky is rather what amount or kind of *labour* does money (a pound of gold) represent? Both national labour and world labour simultaneously seems to be the answer. In addition, the production of the commodity gold has this peculiarity, that not every nation can engage in it (on its own territory), though all its commodities are exchanged by it.[154]

In section three on factor mobility, that we already mentioned, his level of abstraction still is not purely capitalist: 'one takes the concept of "capital" in its technical sense (which, in terms of the problem of material transfer is quite allowable)'. True, he touches on capital export and differences in the rate of profit, but this indicates a lack of a general rate of profit, which is the distinctiveness of capital. Only in section four Dashkovsky finally announces the start of his investigation of the distinctiveness of capital, as opposed to value in general. Section four treats roughly two general topics. A first topic is the 'nature' [*kharakter*] of, and issues related to, international exchange, that is its 'unequalness' in the colloquial sense and the causes of such exploitativeness. These causes are not about the three points presented in section one on the general law of value. The causes are rather found by an investigation into the

[154]In the period of Dashkovsky's writing the monetary use of gold was common, see the last chapter by Frej in this volume.

law's practical, particular manifestation. A second topic is the distribution of production forces, – the distribution considered as an outcome or result, so this is not on the feasibility of their migration, nor on the manner and condition of their transfer, which were the topic of section three.

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1. The law of value in the national and world economy[155]

The fundamental thesis of classical theory reads: when the participants of international circulation are countries situated on different levels of development of productive forces (in the classics the matter, strictly, is only about different natural conditions), then exchange will inevitably take the form of inequality: a greater amount of labour of the less productive country is exchanged for a lesser amount of labour of the more productive country. The exchange proportions are determined not by the costs of production, but by an equation of reciprocal demand. In other words, exchange happens *not on equivalent principles* and is not determined by the law of value. The viewpoint of the classics [of political economy] enjoys very wide dissemination also in modern Marxist literature, in particular almost every exchange of unequal amounts of labour is now customarily brought under the formula of inequivalent exchange.[156] The classical theory in part was supported, as we later shall see, also by Marx.[157] Far from intending to deny the real facts of non-equivalent exchange between countries, – these facts are so glaring that to negate them would be ridiculous, – we believe, however, that here a mixing of concepts occurs.

1) That which is customarily regarded as inequivalent exchange in fact is normal exchange of equivalents and does not violate the law of value; 2) actually inequivalent exchange derives not from those circumstances which usually are considered the causes of such exchange, not from differences in productivity level of various countries, but from specific conditions of the modern epoch, connected principally with the migration of capital and labour forces.

Let us begin with the substantiation of the first proposition.

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[155] [We number the article's sections.]

[156] [Dashkovsky does not give names. We could find an example of such a claim (about violation of the law of value) only later, in Kachuriner 1931, p. 142.]

[157] [Aside from the issue of an exact interpretation of Marx, Dashkovsky's polemic addresses, as just stated, a widely held viewpoint also outside Marxist literature.]

There exist *three* causes why workers in the course of identical time intervals create different amounts of products, and under certain conditions different value. The first cause is different *organic composition of 'capital'*. (We take this concept in a 'material' sense, as an aggregate of means of production and labour force).[158] The second cause is different *intensity* of labour. The third cause is different labour *productivity* due to *natural* and *technical* factors.[159] It goes without saying that we consider all these causes operating provisionally within one and the same branch [*otrasli*] of the economy, because only within this bound can one compare the results of labour by direct calculation of the amount of produced commodities. Under heterogeneous production [that is production of different kinds of products] such calculation is not possible, consequently, it is impossible also to directly compare productivity. Moreover, with the transition from homogeneous to heterogeneous branches in part also the meaning is recast of the laws that come about from the operation of the named causes.

1.1 First cause[160]

Let us start with the first cause. In what sense does different organic composition of capital affect the results of the labour process? Different composition, as is known, means that equal-sized capitals are divided with varying proportions into constant and variable capital. Each worker in an enterprise, besides creating new value, transfers onto the product value equal to the consumed part of constant capital. It is obvious that this transferred value will be greater, the higher the organic composition of capital is. The higher this transferred value, in the larger amount of finished products it must be expressed – other conditions being equal. Consequently, one and the same worker, under the same expenditure of force,[161] creating in a

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[158] [The referenced concept is not the whole emphasised phrase, but only the word in scare quotes. Dashkovsky will use emphasis also in the next sentences on the second and third cause. If his reference were to the whole phrase (organic composition of capital), then his definition would be imprecise, because composition is about the proportion, and not the aggregate. Dashkovsky's section on the composition of capital in his course on political economy shows his familiarity with the precise concept (see Marx 1976b, p. 762): 'That proportion in which capital is divided into the mass of means of production and labour power is called the technical composition of capital, while the proportion in which it is divided into constant and variable capital is called its value composition; it is expressed in monetary form. The value composition of capital does not always coincide with the technical composition (usually changes in the value composition lag behind changes in the technical one). The value composition, in case when it reflects the technical one, it is customary to call the organic composition of capital (when there is talk about the composition [as a single word], it implies precisely the organic composition)' (Dashkovsky 1923, p. 57).]

[159] [We switched the second and third cause to fit with the chronology in which the text will discuss them.]

[160] [We create these subsections for sake of clearer delineation.]

[161] ['One has to assume that the length and the average intensity of the working day are the same – for with comparisons between the working days of different nations modifications [*Modificationen*] of the general law of value arise which we are leaving out of account here as irrelevant' (Marx 1994, p. 193, or in German: Marx

unit of time equal new value, transfers to the finished product an unequal value of constant capital, in accordance with the specific mass of the latter in different enterprises. And since in the manufactured product the part, corresponding to the newly created value, externally does not differ from the other part, representing the transferred value of constant capital, then overall it turns out that the result of equal labour of workers in equal labour time is expressed by a different amount of products and in a different value of these products.
Passing into the domain of international economic relations, this law acquires the following expression:

> An English and an Indian spinner, for example, may work the same number of hours with the same intensity; they will both create equal values in the course of a week. But in spite of this equality, an immense difference will obtain between the value of the weekly product of the Englishman, who works with a mighty automatic machine, and that of the Indian, who has only a spinning-wheel. In the same time as the Indian spins one pound of cotton, the Englishman spins several hundreds of pounds more. A sum of old values, many hundred times as great, swells the value of his product, for in that product the old values re-appear in a new useful form, and can thus function anew as capital.[162]

This law is valid not only within a homogeneous branch of production, but also in the scale of the entire national economy. Constant capital, applied in production, is the result of past labour, which, however, is able to realise its value only through the accession to it of new labour. The more significant in a given country the accumulation of past labour is, the greater the value and the greater the mass of products national labour produces, even if it [the national labour] remains unchanged in its absolute magnitude. True, that part of annual production which corresponds to the transferred part of constant capital must go back again to its [constant capital's] restoration, so that the total sum of value produced by a year's labour increases, – compared to value already found at the nation's disposal, – only by the (in the course of the year) *newly created* value proportional to expended labour. But firstly, constant capital can be reproduced in *more productive form*, though it is also past value

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1982b, p. 2230). Dashkovsky will discuss labour intensity in subsection two. Although in this quote Marx admittedly uses the word 'modifications' in relation to labour intensity, he does not call it an 'essential' modification, like he does for differences in objective conditions of production, that Dashkovsky quotes in subsection three.]

[162] Marx 1976b, p. 754. [We, like the Russian edition, follow the first edition of *Capital*, where the spinner is Indian instead of Chinese.]

(better machines, and so on). Previous value, past accumulated labour will represent by itself a more significant productive force. Secondly, even under the provision of reproduction of constant capital in the previous natural form and with the previous productivity, it nevertheless will come out so that the English spinner will again reproduce his 'mighty automatic machine', and the Indian spinner – his 'manual spinning-wheel': *the inequality of England and India is reproduced continuously, just as the continuous reproduction of the class relation between capitalist and wage worker*. Thirdly, it can easily happen that now less labour is expended on the reproduction of the old constant capital due to increased productivity, but in the value (or, truer, in the price) of the produced product there will be realised, – under advantageous conditions of competition on the world market, – a magnitude, corresponding to the old, higher value of constant capital.[163] As all of industrial history testifies, such capabilities [as these three] are more likely to be had by the owner of the 'mighty automatic machine' than the owner of the 'spinning-wheel', for whom it is not always possible even to restore his old spinning wheel with the product's price.
Higher value and greater number of products, created in equal units of time, more often than not go hand in hand with lower prices of these products, especially in industry.

> In the case of factory-made commodities, it is known that a million [workers] in England produce not only a much greater product but also a product of much greater value than in Russia for example, although the individual commodity is much cheaper. In the case of agriculture, however, the same relation between capitalistically developed and relatively undeveloped nations does not appear to exist. The product of the more backward nation is cheaper than that of the capitalistically developed nation, in terms of its *money price*. And yet the product of the developed nation appears to be produced by much less (annual) labour than that of the backward one. In England, for example, less than one-third [of the people] are employed in agriculture, while in Russia it is four-fifths.[164]

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[163] ['If ... machinery *of a particular kind* can be produced with a lessened expenditure of labour, the old machinery [too] undergoes a certain amount of depreciation, and therefore transfers proportionately less value to the product' (Marx 1976b, p. 318, our emphasis). This is relevant only if the old instruments of labour were of the same kind, which it is not the case in Marx's example quoted by Dashkovsky. That here Dashkovsky's assumption is that they all are using the same kind of instrument (presumably a 'mighty automatic machine'), thus indicates that he is discussing competition also among technologically advanced countries, with moreover the same technology (in that branch of production) as the machine technically itself is not changed ('with previous productivity'), only its value is.]

[164] Marx 1989b, p.107. Marx further stipulates that these numbers need to be amended by adding to the agricultural workers the part of industrial workers who manufacture instruments of agriculture, but nevertheless the difference remains.

The reason for the different rapport of industrial and agricultural prices is due, partly to the influence of natural factors, stronger in agriculture, partly to the particular economic system of agriculture in backward countries.

Thus, the conditions of reproduction of constant capital in connection with difference in the organic composition of capital are extremely important factors, characterising the economic interrelation between countries, although they do not entail themselves any deviations [*otklonenij*] from the general [*obschego*] law of value and exert impact likewise also in the internal economy (for example, in the rapport of prices for industrial and agricultural products).

'If this portion (of constant capital) grows, not only does the annual mass of products grow, but also their *value*, even if the annual labour remains the same. This growth is one form of the *accumulation of capital*, which it is essential to understand'.[165] It is no less important in connection with this to remember likewise the role of fixed [*osnovnogo*] capital, which grows both relatively and absolutely together with the growth of constant [*postojannogo*] capital, as part of the latter.

> Hence where much constant capital, and therefore also much fixed capital, is employed, that part of the value of the product which replaces the wear and tear of the fixed capital, provides an *accumulation fund*, which can be invested by the person controlling it, as new fixed capital (or also circulating capital), without any deduction whatsoever having to be made from the surplus-value for this part of the accumulation. This accumulation fund does not exist at levels of production and in nations where there is not much fixed capital. This is an important point. It is a fund for the continuous introduction of improvements, expansions etc.[166]

This happens, as is known, because of the fact that in reality it seldom occurs that the annual restoration is exactly equal to the part of fixed capital which is worn out, that 'in part the wear and tear merely exists nominally, and in reality it only has to be replaced *in natura* after a certain number of years'.[167] Depreciation funds are, thus, temporarily free to be used to expand production.

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[165] Marx 1989b, p. 106.
[166] Marx 1989b, pp. 112–13.
[167] Marx 1989b, p. 113.

The significance of the depreciation fund specially in the field of international relations, Marx also emphasises in a letter to Engels.

> Now, what becomes of this fund, which yearly replaces 1/12 of the machinery? Is it not, in fact, an accumulation fund to extend reproduction aside from any conversion of revenue into capital? Does not the existence of this fund *partly* account for the very *different* rate at which capital accumulates in nations with advanced capitalist production and hence a great deal of fixed capital, and those where this is not the case?[168]

1.2 Second cause

The second cause of unequal 'labour-exchange' is difference in the very character of the labour that creates value. Countries and nations differ among themselves in the qualities of their typical average labour: qualification, skill, agility, endurance, exertion, and so on. All these properties can conditionally be combined under the general name of *intensity* of national labour (which is not identical in this case with the concept of exertion of labour).[169] Labour different in its intensity creates in equal time intervals unequal value. This applies in the same degree to various nations, as well as to various individuals of one and the same nation. An hour of labour of a country which possesses a higher quality of labour, will exchange in the world market for two, three and more hours of labour of other countries, characterised by lesser intensity of labour. In other words: commodities produced by different countries will have on the world market one price, but as the first country produces twice as much per hour, then it also gains a correspondingly large sum of money.[170] In essence here there is not any inequality in exchange: when a preliminary recalculation is made of more intensive labour in units of less intensive labour, then it also will make up more labour time: an equal measure applied to unequal magnitudes gives unequal results. Despite full conformity of the conditions of exchange with the law of value, such exchange nevertheless forms the economic basis allowing the more developed country to consolidate

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[168] Marx 1985, pp. 411–12.
[169] [The skill of labour is not the same as the intensity of labour, but labours of different skill create different values in the same time, just as differences in intensity do, which is the angle from which Dashkovsky is looking at the issue. Marx wrote: 'The English hour of labour stands above the Continental one, it is related to it as more complex labour to simple labour. (Hence the relation of the English to the foreign manufacturer is the same as the relation of a manufacturer who has introduced new machinery to his competitor.)' (Marx 1988b, p. 338).]
[170] [A rise in intensity does not cause a fall in the price of an individual commodity, but increases the quantity of commodities and so the sum of their prices.]

for itself and even systematically strengthen its dominant position, 'perpetuating' the advantage of its labour. The higher value, realised on the world market in the form of a bigger amount of material goods, allows this country to spend more means on the qualification of the younger generations of workers, than a backward country is able to. Here is repeated the same pattern that we have already noted when analysing the conditions of reproduction of fixed capital. Similar to how as a result of international exchange the backward country recovers only – with the greatest difficulty – its spinning-wheel, while the advanced country recovers a mighty automaton, the same reproduction of poverty and power takes place in respect to also the *quality of the labour force*.[171]

Labour intensity, in the sense that we in this case attach to that term, is the result of general economic, cultural, and so on, conditions. In particular it is found in close dependence on the level of *technological* development. But it would be a mistake to think that a complete parallelism exists. Not to mention the fact that a high level of technology time and again leads to *deskilling* [*dekvalifikatsii*] of labour forces, the physical exhaustion of nations, proceeding in parallel with economic 'progress', leads to it that often 'lower forms of labour are [...] in general considered as higher forms'.[172] Moreover, in Marx's opinion, very often the difference between complex and simple labour is based on illusions and prejudices. Thus, the level of economic development [of a country] and the degree of intensity[173] (qualification) of labour may, at least in some branches, be found in inverse proportion. If nevertheless an economically more developed country gets for this labour a compensation as for more intensive labour, then this happens because the price level is determined by the dimensions of the *productivity* of social labour, and labour productivity is a sum total, in which the difference is extinguished between the subjective and objective factors determining it. Therefore, a country can, according to Marx, hand out a more productive labour [in exchange] for a more intensive labour. However, as we shall see later, this is not the specific property solely of international exchange, and is no violation of the law of value.

The intensity of labour stands not merely in dependence on economic and technical conditions, but in its turn has an influence on them. The construction of one or other machine is often adapted to the character of the labour force serving this machine or labouring with its help. So, for example, with the construction of textile machines the national peculiarities of labour are taken into account. 'For Russia spinning machines are

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[171] [Dashkovsky repeats this point later in this text, attributing it to Bukharin.]
[172] Marx 1976b, p. 305.
[173] [The Russian word here is 'intensification', either a made-up word, or meant to stress Dashkovsky's conditional definition of intensity as including labour 'qualification'.]

built of lesser speed, adapted to the less intensive labour of the Russian worker; for England, America, the speed of the spindle is higher'.[174] Application of the Fordist assembly line is also in dependence on the national particularities of labour.

More intensive national labour may be realised as labour of a higher specific mass (respectively less intensive labour, as labour of a lower specific mass) only because on *the world market an average scale* [*masshtab*] *of intensity is formed*, just as inside a country the diverse individual differences in intensity likewise are summed up in an average magnitude. This average scale consitutes a general measure which, when applied to unequal magnitudes, gives unequal measurements. However, some of Marx's formulations give occasion to think that he saw some sort of principal difference between the formation of the category of average labour in the national and the world economy. He says:

> In every country there is a certain average intensity of labour, below which the labour for the production of a commodity requires more than the time socially necessary, and therefore does not count as labour of normal quality. In a given country, only a degree of intensity which is above the national average alters the measurement of value by the mere duration of labour-time. It is otherwise on the world market, whose integral [*integrierende*] parts are the individual countries. The average intensity of labour changes from country to country; here it is greater, there less. These national averages form a scale [*Stufenleiter*; in Russian: *skalu*] whose unit of measurement is the average unit of universal labour [*Durchschnittseinheit der universellen Arbeit*].[175] The more intense national labour, therefore, as compared with the less intense, produces in the same time more value, which expresses itself in more money.[176]

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[174] Smith-Fal'kner 1923, p. 78.

[175] [This is the only place where Marx speaks of '*universal* labour'. The Russian translation has *mirovogo* ('world'), and so Dashkovsky in the following will also speak of 'world labour'. The French edition of *Capital* has: 'Ces moyennes nationales forment donc une échelle dont l'intensité ordinaire du travail *universel* est l'unité de mesure' (Marx 1875, p. 243), and translates 'world market' as *marché universel*).]

[176] Marx 1976b, pp. 701–2. [This whole passage is absent in the first edition of *Capital* (1867), which instead read: 'On the world market not only does the more *intense* national working day count as a working day of more hours, but the more *productive* national working day counts as more intense as long as the more productive nation is not compelled by competition to lower the selling price of the commodity to its value. The more intense and productive national working day thus presents itself on the world market in greater *monetary expression* than the less intense or productive national working day. What is said of the working *day* applies to each of its aliquots' (Marx 1983b, pp. 454–5, our translation). We thank Guenther Sandleben for pointing this out.]

The sole distinction which, in point of fact, must be designated [when Marx writes 'it is otherwise on the world market'] is that each individual country is itself an '*integral part* [*of the whol*e]' in the world economy, whereas the individual worker in a national economy is only a negligibly-small fraction of the whole. Therefore, the concept of 'average national labour' from a statistical viewpoint is itself a much more tangible reality, than the concept of 'average world labour'.

In the first case [that Marx mentioned] we are dealing with an average derived from a huge amount of facts which, by the law of large numbers, provides it the required veracity. In the second case, the 'average' is built on the basis of a few single or some tens of 'national averages' and represents itself an elevated abstraction. Inside a country the 'average' unites around itself a compact mass of labour, really homogeneous and equal in intensity, from which only at the 'periphery' deviations are formed in either direction. An 'average intensity' of world labour exists only as an average in an arithmetic sense, among whose constituting component parts no two approximately identical elements can be found. Therefore, it also is diffused over the rungs of a ladder [literal translation of *Stufenleiter*].

Such may be the considerations which encourage the drawing of a theoretical dividing line between national and international exchange. But inasmuch as we nevertheless introduce the concept of '*average world labour*' and operate with it, as with some reality, here the same law comes into force that acts also in the national scale. Indeed: why in the frame of the 'average' which brings Moscow and Petersburg weavers together in a single group, should another law operate than in the world average, uniting Moscow and Lancashire. Here the difference is in degree, but not essence.

1.3 Third cause[177]

[177] [This third point is about higher productivity due to objective conditions. For Marx it is the normal function of the law of value that producers with such higher productivity create more value in total product (of course not per commodity unit): 'The exceptionally productive labour acts as intensified [*potenzierte*] labour; it creates [*schafft*] in equal periods of time greater values than average social labour of the same kind' (Marx 1976b, p. 435). This assertion is what for some (such as Vogt and Poznjakov) would seem contrary to the law of value, and hence we bring this quote as a reminder that it conforms for Marx to the normal function of the law of value, as is Dashkovsky's point in this subsection. The French translation had '*compte comme de travail complexe*' (Marx 1872, p. 137), hence the editor for the strange English translation (in 1887) of '*potenzierte*' as 'intensified' (instead of for example 'potentised', 'exponentiated', and so on) added a note, referring to Marx's earlier discussion of complex (or skilled) labour, which acts as 'potentised' simple average labour (and which Dashkovsky, in the previous subsection, groups together under intensity), where Marx indeed used that same peculiar word in German (in French it read: '*travail complexe n'est qu'une puissance du travail simple*', Marx 1872, p. 17). Still, 'intensified' is a strange English translation for *potenzierte* in the two places (also so translated in English in the earlier place, see Marx 1976b, p. 135). Sandemose too comments on this erroneous translation (see chapter thirteen). Higher productivity of labour due to objective conditions is not the same as labour of higher complexity (and nor as labour of higher intensity in general), so perhaps distinct terms would be better to designate each case. Indeed, the Russian Soviet translation does not attempt literal consistency for

The third condition causing unequal labour-exchange is difference in the labour productivity of various countries inasmuch as it arises not from subjective, but from *objective* factors of production: *natural* and *technical* conditions. It is this situation which strictly speaking also carries the name of inequivalent exchange. It was mainly also what the classical school had in mind, though they confined themselves almost exclusively to the influence of natural conditions on productivity.[178] Yes and also Marx himself sharply distinguishes the unequal labour-exchange which arises out of difference in objective conditions of production, from the unequalness which occurs when there is difference in labour intensity, and is inclined, apparently, to read the first situation as a violation of equivalence. So, in one place he says: 'The law of value is yet more[179] modified [*modifiziert*] in its international application by the fact that, on the world market, the national labour which is more productive also counts as the more intense [*als intensivere zählt*], as long as the more productive nation is not compelled by competition to lower the selling price of its commodities to the level of their value'.[180] In another place he refers to a consideration of Mill on foreign trade, with which he, apparently, fully agrees:

> [Jean-Baptiste] Say, in his notes to Ricardo's book translated by Constancio, makes only *one* correct remark about *foreign trade*. Profit can also be made by cheating, one person gaining what the other loses. Loss and gain within a *single* country cancel each other out. But not so with trade between different countries.[181] And even according to

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Marx's two places with *potenzierte* in German, disregards the French and English translations, and it uses the distinct term 'multiplied labour' (*umnozhennyj trud*) in the second place, so it cannot lead to confusion with intensity or complexity. Actually, there is a third place with *potenzierte* in German, and there the French translation is: '*travail puissancié*' (Marx 1872, p. 176). English translations read: 'labour of a higher degree and greater efficacy' (1887, p. 354) or 'labour of a higher degree' (Marx 1976b, p. 530), the latter which is the same as in the Russian Soviet translation. That is at least a better translation than 'intensified labour'.]

[178] [Ricardo wrote: 'With respect to foreign countries, such commodities [– which, either by *the aid of nature or art*, are produced with peculiar facility –] may be classed under the head of those which are *not regulated in their price by the quantity of labour bestowed*, but rather by the caprice, the tastes, and the power of the purchasers. If England had more productive tin mines than other countries, or if, from superior machinery or fuel, she had peculiar facilities in manufacturing cotton goods, [... o]ur advantage in the production of these commodities might be so decided, that probably they could bear a very great additional price in the foreign market, without very materially diminishing their consumption' (Ricardo 1821, pp. 277–8, our emphasis).]

[179] [By placing 'yet more' away from the front of the sentence, the English translation does not fully convey the stress. 'Noch mehr aber': 'Still more, however, the law of value is modified ...'. In French the stress is indicated by an adverb: '... est encore plus *profendément* modifiée ...' (Marx 1875, p. 243, our emphasis). And so meaning the law was profoundly modified also in Marx's preceding paragraph, though to a less profound extent.]

[180] Marx 1976b, p. 702.

[181] [The *MECW* editors believe it is Say's note in chapter seven of Ricardo's *Principles*, 'in which Say gives the example of sugar imported by France from the Antilles and costing less than would sugar produced in France itself' (Marx 1989b, p. 557, which follows the idea of the *MEW* editors, Berlin 1968).
We think instead that Marx meant the following note, added by Say at the end of chapter twenty-two where Ricardo polemicised (tidbit: Miklaschevskij 1904, p. 30 refers to this Ricardo polemic) with some passage from

Ricardo's theory, three days of labour of one country can be exchanged against one of another country – a point *not* noted by Say.[182] Here the law of value undergoes essential modification [*erhält hier wesentliche Modifikation*[183]]. The relationship between working days of different countries may be similar to that existing between skilled, composed labour and unskilled, simple labour within a country. In this case, the richer country exploits the poorer one, even where the latter gains by the exchange, as John Stuart Mill explains in his *Some Unsettled Questions*.[184]

Say's 1803 *Traité d'économie politique* (incidentally, Say later changed that passage): 'Besides gain made by means of a *utility*, and as a result by a *value produced*, one can [also] make a profit from the losses of another man. When this other man is a countryman, the nation neither loses nor wins by this profit carried from one pocket to the other; [but] when this other man is from another country, the nation of which the first man is a part wins what the other nation loses. I do not pretend to justify this gain; I merely observe the fact' (Say's note in Ricardo 1819 Volume 2, p. 167, our translation). This note does not yet seem a concession to Ricardo, as is claimed of the passage Say later modified: '[...] Say does not seem to have been a fair opponent in retreat so that a reader might easily bypass his concessions. [...] Thus the abandonment of the alleged contrast between the gains from domestic and foreign trade, to which Ricardo objected, is made silently by way of a subtle textual amendment' (Hollander 2005, p. 263, see also p. 185). For Ricardo's objection to Say, see Ricardo 1821, pp. 376–9. But we do not delve into this Ricardo-Say polemic further.

Another note by Say that Marx could have (though less likely had) in mind is in chapter sixteen, added by Say to a line that stands alone in Constancio's French translation: 'Or, tout commerce extérieur et intérieur n'est réellement autre chose qu'un commerce d'échange' (Ricardo 1819 Volume 1, pp. 399–400). In English this is almost like an afterthought with which Ricardo closes his sentence: 'If any cause should raise the price of a few manufactured commodities, it would prevent or check their exportation; but if the same cause operated generally on all, the effect would be merely nominal, and would neither interfere with their relative value, nor in any degree diminish the stimulus to *a trade of barter, which all commerce, both foreign and domestic, really is*' (Ricardo 1821, pp. 261–2, our emphasis). Say's note here reads: 'Even in trade of barter and without the use of money, a commodity can be expensive or cheap. It is expensive when it is the result of much costs of production, of the service of much capital or industry, or, what amounts to the same thing, when much capital or industry has given but little [*n'ont donné que peu*] commodity. When this commodity goes abroad, there can be given but little in exchange of anything [*de quoi que ce soit*] for it; hence it cannot be easily exchanged. This is what one calls the inability to compete with commodities produced in those foreign countries, who are able to offer in greater abundance on the markets, obtaining the preference. This is an additional proof that there is something else than [merely] the *relative variations* in prices, as the whole of Mr Ricardo's doctrine seems to depict it' (Say's remark in Ricardo 1819 Volume 1, p. 400, our translation). We think that Say here interpreted Ricardo's phrase 'trade of barter' to mean not just a moneyless exchange, but also to imply an exchange of equivalents, with which he apparently takes issue. Regardless of which note Marx meant, Say's remark in chapter sixteen is noteworthy (also regardless of the fairness of Say's interpretation of Ricardo's phrase 'trade of barter'), since it also seems to contradict what is branded Say's Law (for Say commodity exchange in general was like barter, but now for foreign trade he rejects this). Marx sides with Say's idea that in foreign trade one country can increase its value, against Ricardo who held that this was impossible.]

[182][A further reason why it is unlikely that Marx meant Say's note in chapter seven is that then this comment ('a point *not* noted by Say') would make little sense since in that place Ricardo explicitly writes, and we think Say's note referencing sugar merely endorses the fact that 'the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians, or 120 East Indians' (Ricardo 1821, p. 142).]

[183] [In Russian: *ispytyvaet zdes' suschestvennye izmenenija*. The latter word is commonly translated as 'change'. So even if for Dashkovsky Marx's term 'modification' should be understood merely in the weak sense of 'change', he still objects to this claim of Marx.]

[184] Marx 1989b, p. 294. [Let us note that Petrov, in this volume's following chapter, does not cite this excerpt, perhaps because it contains Marx's strong wording of '*essential* modification'. Dashkovsky is citing from a Russian edition of volume three of *Theories of Surplus-Value* (pp. 195–96), which appeared in 1924, translated by Sara Salitan (Leningrad: Kommunisticheskij universtitet Zinov'eva), based on the fourth German edition (1923). This fourth German edition is not available to us, but we presume the excerpt was in it. This excerpt is not in the corresponding place (page 120) in the German first edition (1910) of *Theories of Surplus-Value* (volume three). Henryk Grossman in his 1929 book (written in German) does not quote this excerpt. The

Thus, it is entirely clear that Marx considered unequal exchange [to be] a 'modification' [*modifikatsiej*] of the law of value in international trade. It seems to us that this view of Marx is not consistent with the understanding of the law of value with which we are accustomed to operate precisely as with a Marxist law. Let us begin with some elementary considerations. What is value? – The amount of labour confined in the commodity. We screen the category labour, forming value, by a 'chemical treatment' from all the concrete, individual, accidental [features]: we take into account labour as the abstract expenditure of energy of muscles and nerves, as *average* labour in the sense of average intensity and so on. But if the amount of *this* labour, expended on the production of two commodities is equal, then does it follow that also the *value* of these commodities is equal? No, it does not follow. For full equality of value, beyond equality of labour expenditure one more *technical* condition is necessary: the expenditure of labour must be performed at *average* objective conditions of production, at the average technology (we ignore here the exceptional, though also very important, circumstance when value is defined by worst conditions of production). Only such labour will be *socially necessary* labour. 'Socially necessary [*Gesellschaftlich notwendige*] labour-time is the labour-time required to produce any use-value *under the conditions of production normal for a given society* [*gesellschaftlich-normalen*] and with the average degree of skill and intensity of labour prevalent in that society'.[185] Consequently, an equal amount of labour, expended under *different* conditions of production in *one and the same branch* (one cannot directly compare technical, and so on, conditions in *different* branches, because also the category of socially necessary labour-time makes sense only in application

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passage was quoted by Abdul Faroqhi (1901–69) in his Marxist-inspired book (216 pp.) on the Hindu-Muslim conflict, apparently in a section on imperialism (see Faroqhi 1933, p. 141), though politically he was an adherent of Chandra Bose and his personal doctor in 1942 Germany (see p. 19 in Baumgärtel's *Vom Guerillakino zum Essayfilm*). For a study of foreign trade and underdevelopment of India that references Marxist writings, see Schubert 1976.

Mill wrote (as also the *MECW*-editors quote): 'We may often, by trading with foreigners, obtain their commodities at a smaller expense of labour and capital than they cost to the foreigners themselves. The bargain is still advantageous to the foreigner, because the commodity which he receives in exchange, though it has cost us less, would have cost him more' (Mill 1844, pp. 2–3). Marx's expression that the richer country *exploits* the poorer one, or already his mere reference to Mill, suggests his belief in a violation of the law of value, whose operation on the international level Mill discarded, reverting to the principle of demand and supply (as Dashkovsky posited about the classics in general at the start of the present essay). As for Mill's (common) claim that even the poorer country gains by the exchange, Marx likewise accepts it, although in a 1845 notebook excerpting the line from Mill (we here cited also the preceding line) he still had called it 'fine nonsense' (*Schöner Unsinn!*) (Marx 1988a, p. 329). We will return to this in our introduction to chapter five.

Incidentally, Bukharin (in retort to Roniger's criticism) used this Marx-passage in defence of the notion of 'super-profit' from colonies and the notion of labour aristocracy (Bukharin 1924b, p. 134, also mentioned in Bakos 1992, p. 80). Bukharin added, in regard to the bourgeois economist (in this case Mill): 'Even a blind sow sometimes finds an acorn' (borrowing an expression from Marx 1989b, p. 507).]

[185] Marx 1976b, p. 129. Dashkovsky's emphasis. [The Russian translation hyphenated both 'socially-necessary' and 'socially-normal'.]

to *concrete* branches of the economy, and not to society as a whole) – an equal amount of labour of the same intensity will create a *different* value, comes in the market appraisal with a different *mass*, as if it were a different amount of labour or [as if it were] an equal amount of labour of a *different* intensity. Conversely, a bad worker working under the best objective conditions, and a good worker working under the worst [objective] conditions, can create *equal* value, although the quality of their labour is deeply different. Technical and natural conditions are thus among the factors that determine the magnitude of value. It may seem that here we go astray on the vulgar theory of productivity or the theory of 'imputation' according to which the [value of the] manufactured product must be attributed not only to labour, but also to land, capital, and so on. We are farthest of all from these, if one is permitted to say, 'theories'.

One must distinguish [1] the *value* of the whole product of a given branch, [2] the *value of commodity-units* and, finally, [3] the *value* created in a *particular enterprise* of this branch or by a *particular individual* in a determined labour-time.[186] Let us call the last value-category type the *specific* or *partial* value.

The value of the whole product of a given branch [*otrasli*], taken in the scale of the social whole, is equal to the sum of labour confined in this branch, and only in it. It does not depend on any technological, or on any natural factors. The latter determine only what amount of labour society must expend in the given sphere [*sfere*][187] of production in order to get the necessary result. The value of the [whole] product of textile industry will be, for example, entirely the same, whether here is laboured primarily by machines or by manual spinning-wheels and benches, if only the amount of labour remains as before.

Next: the value of commodity-units likewise is equal to the amount of labour-time bestowed on them on average over this whole branch. On technology, and so on, this value depends only *indirectly*, inasmuch as technical factors determine what amount of products are developed in units of time. But the measure of value remains labour-time and it alone.

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[186] [We reverse the order of the last two for the sake of fitting them with the chronology that Dashkovsky will explain them in. The good reason Dashkovsky had ordered 'value of commodity-units' last though, was because his list descends by size: first the total value of the branch, then the value sum of the output of some producers at the same technological level in the branch, and finally the value of one individual commodity of this branch. Let us add an excessive pointer: None of Dashkovsky's three concepts mentioned here have anything to do with the 'individual value' and 'market value' that we dwelled on in our introduction.]

[187] [Dashkovsky in Russian uses *otrasli* and *sfere* interchangeably, both for a branch of companies that produces one particular product.]

Finally, the *specific*[188] value, created by a particular enterprise in a given branch. Here the question is more complicated. Let us assume that this enterprise employs a hundredth part of all textile workers, that the quality of their labour corresponds to the average level of textile workers and they exercise the common rate of labour time. Do they create under these conditions value equal to one per cent of the value of all textile products? *Ça depend*![189] If they produce by *physical volume* a hundredth of the whole product [of the branch], then likewise the value created by them constitutes the same share. But when by reason of backwardness of the company, bad quality of the raw materials and so on, they produce only half a per cent of the entire textile mass, generated by the whole given branch, then also the value created by the labour of the workers of this company will be only half a per cent in relation to the aggregate value of the whole commodity mass. In other words, the labour expended in this enterprise will be appraised with a rate only *half* the mass, although in its subjective qualities it is not inferior to the average requirements. Thus, *specific* value is determined not only by the amount of labour expenditure, but also by the objective conditions of production. One must, however, correctly understand the role of these technical factors in the determination of the specific value. The latter does not depend on the absolute quality of the technology of the given enterprise or [on] natural conditions, not on good or bad machines, and so on, but only on the *relation* of the technical level of the given enterprise to the average technical level of the whole branch. This relation determines the share of participation of the given enterprise in the creation of the *total* value, which, as said above, does not at all depend on any technology. This share may be low even with excellent equipment, if the average level of technology was above the level of the given enterprise. Conversely, the value share may be high also with bad equipment, if only it is above the average of the branch.[190] According to these same grounds, the *individual* value of

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[188] [This is the usual English translation for *udel'nyj*, which we reluctantly follow. The noun *udel* can mean 'portion' ('share in something'), which is indeed the sense in which Dashkovsky uses it as an adjective, but we do not know how to render it in English ('portion value', or maybe 'tranche value'). Above Dashkovsky proposed besides his term 'specific value', also the alternative term 'partial (*chastichnoj*) value', which to us is the clearer term in English, as it indicates that it is about an amount of value that is a *part* of the total value of a branch. In the following Dashkovsky will prefer using 'specific value'. One should understand this as the whole amount of value produced by a producer (or a group of producers) marked by a certain level of technology within a branch. So as there are different levels of technology within a branch, then there are as many producers (or groups), that form the portions or shares within this branch. By a summation of the 'specific value' of each of all the producers (or groups), one gets the total value of the branch. Again, Dashkovsky's term 'specific value' does not refer to some weird kind of value of a (single) commodity, so perhaps read it as 'specific sum value' or 'specific output value'.]

[189] [It depends!]

[190] The interplay which exists between the character of labour and the objective conditions of production in the sense of determiniation of the magnitude of specific value, can be established also between individual elements with the same objective conditions. Good machine with bad quality of raw materials, excellent equipment for farming with bad soil, and so on, call forth fluctuation of the magnitude of specific value to one or the other side,

commodity-units, that is, the amount of labour which is actually spent on them, can differ to one or the other side from their market value. If an enterprise operates at above average level objective conditions, the labour expended in it creates a higher specific value, and [so] the individual value of commodity-units released on the market will be, conversely, below the market value of these units. The reverse occurs with technologically-backward production. These considerations, which essentially are the alphabet of the theory of value, can be illustrated with the simplest mathematical calculation. Let a, b, c... l represent the amount of labour expended in groups of enterprises different in their productivity of one and the same branch; let m, n, p... r be the respective amount of products. The market value of commodity-units (socially necessary labour expended on their production), leaving aside situations where it is regulated by worst costs, is expressed through (a+b+c+...l)/ (m+n+p+...r).
The specific value created by each homogeneous group of companies will respectively be equal to:

1. m. (a+b+c+...l)/ (m+n+p+...r)
2. n. (a+b+c+...l)/ (m+n+p+...r)
3. p. (a+b+c+...l)/ (m+n+p+...r)

   .....

   r. (a+b+c+...l)/ (m+n+p+...r)

It is easily seen that the specific value of the production of each group of enterprises is proportional not with the expended labour in its group, but to the *size of production*, determined by the natural and technical factors of production under otherwise alike conditions.
Summing up all specific values, we get:

[m. (a+b+c+...l)/ (m+n+p+...r)] +
[n. (a+b+c+...l)/ (m+n+p+...r)] +
[p. (a+b+c+...l)/ (m+n+p+...r)] +
...+
[r. (a+b+c+...l)/ (m+n+p+...r)]

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under unchanged expenditure of labour force. Pluses and minuses may also mutually equilibrate. So, for example, in single branches of production connected with organic processes (for example, agricultural) the low technology of a backward country can be compensated by the natural fertility of the soil.

$$= \frac{(a+b+c+...l).(m+n+p+...r)}{(m+n+p+...r)}$$

$$= a+b+c+...l$$

In other words, the sum of specific values gives the value of the whole production of this branch, which is *identical* with the sum of labour spent in this branch and does not depend in any sense on technical conditions of production.

Let the labour productivity in the first group of enterprises double thanks to the introduction of new machines, and so on, [while] the reserves [means] of production and the level of productivity also in the other groups stays the same. Then the market value of commodity-units will be $(a+b+c+...l)/(2m+n+p+...r)$, and the specific value of the production of the first group will be $2m.(a+b+c+...l)/(2m+n+p+...r)$. The numerator multiplied times two, the denominator only increased by the magnitude of 'm', which is in any case less than the expression 'm+n+p+...r', that is, the denominator increased, but not times two, but in a lesser degree. Consequently, the specific value of the production of the first group *increased*, although the amount of labour spent on it remained *unchanged*. It would again have fallen to the previous magnitude, if productivity growth were to take hold of all other groups to the same extent. The growth of the specific value of the first group does not increase, however, the general value of the production of the entire branch, it takes place *on account of a reduction of the specific values* produced by the other groups, which can be easily shown by corresponding calculations.

The growth of the specific value is determined by a coefficient which is the *relation of the degree of increase of productivity in a given group to the degree of a decrease of the market value of commodity-units*.

All these patterns were noted a long time ago. On them are based all possible methods to extract surplus-profits in the competitive struggle. When we here introduce instead of the terms surplus-profits, and so on, the more general category of specific value,[191] then only because similar phenomena are possible also in such economic system in which the category of profit is absent, but market exchange is preserved.

Thus, objective factors of productivity can and must cause inequality of labour-exchange even when we are dealing with labour of the same quality, and this does not only not violate the law of value, but on the contrary, entirely follows from it. The concept of non-equivalence

[191] [Again, the term 'specific value' refers to the sum of values of a certain producer (or group), part of the branch, and not to the value of a commodity-unit. Likewise, we understand (by definition) that the distinctive capitalist category of 'profit', such as in the 'surplus-profits' listed here, for its calculation requires the summation of values of a producer, and so profit is not discussed from the perspective of merely one commodity-unit.]

of exchange in application to such phenomena does not have any sense. Such 'non-equivalence' wholly emerges from the inevitable and unavoidable fact that a *single* market price and value opposes a *multiplicity* of costs of production in different enterprises (which does not disappear immediately also in organised economy). 'If costs of production persist, then they persist with their inequality, and not with their equality'. 'By the very existence of market bargaining the price is determined as a *single* – in given moment and in given time – magnitude for a *multiplicity* of economic subjects, whereas costs of production are *multiple*, so to say, mandated by virtue of the plurality of these economic subjects under a relative unity for their market price'.[192]

Graphically this process is observed for the law of ground rent, and Marx himself notes it. Pointing to the fact that the agricultural products produced with less expenditure of labour in the fertile areas are sold at the price of products produced in the worst areas, he says:

> This is determination by a market value brought about by competition on the basis of the capitalist production; it is competition that produces a *false social value* (my italics. *I.D.*). This results from the law of market value to which the agricultural products are subjected. The determination of the market value of products, i.e. also of products of the soil, is a social act, even if performed by society unconsciously and unintentionally, and it is based necessarily on the exchange-value of the product and not on the soil and the differences in its fertility. If we imagine that the capitalist form of society has been abolished and that society has been organized as a conscious association working according to a plan [... then society would] not purchase this [agricultural] product at two and a half times the actual labour-time contained in it. [...] Correct as it is to say that – keeping to the present mode of production, but assuming that the differential rent accrued to the state – the prices of agricultural products would remain the same, if other factors did so too, it is still wrong to say that the value of the products would remain the same if capitalist production were replaced by [socialist] association. *The fact that commodities of the same kind have an identical* [*Dieselbigkeit*] *market-price is the way in which the social character of value is realized on the basis of capitalist production, and in general* [*überhaupt*] *of production depending on commodity exchange between individuals* [*individuellem Waarenaustausch*].[193] *Where society, considered as a consumer, pays too much for*

[192] Struve 1923, p. 24.

[193] [By adding the word 'producers' the Russian translation suggests Marx here meant simple commodity production: '... of the capitalist mode of production and in general of production, depending on the exchange of

> *agricultural products, this is a minus for the realization of its labour-time in agricultural production, but it forms a plus for one portion of society, the landowners* (my italics. *I.D.*).[194]

That which relates to agriculture is also valid for all other domains of the economy. So, in industrial production, before the prices of products of different branches line up on the line of the price of production, within each branch the formation occurs of the market value of the commodities produced by different enterprises [in this branch].

> There is, – writes Marx, – always a *market value* (of which more later), as distinct from the individual value of particular commodities produced by the different

commodities between individual *producers*'.]

[194] Marx 1981, pp. 799–800. [Dashkovsky elsewhere paraphrases this Marx-passage as: 'Landowners receive a surplus over and above the actual *value* of grain production. This surplus cannot be destroyed even by the nationalisation of land, if this nationalisation is carried out under the conditions of the bourgeois system, because as long as the commodity economy exists, the laws of price formation remain in force, according to which individual prices of production are equated to the market price. Only with the complete socialisation of the economy can this overestimation of the *value* of agricultural products disappear' (Dashkovsky 1923, p. 164, our emphasis). On this Marx-passage see also Sandemose 2018, and tangentially in support of the focus on value: '[When] the agricultural product is sold at its value, *its value is* £10 *above its cost price* [would-be price of production]. It then yields a rent of 10% *and this we assume to be the normal thing in capitalist production, that in contrast to other products, the agricultural product is not sold at its cost price* [would-be lower price of production], *but at its value*, as a result of landed property' (Marx 1989a, pp. 511–2, our emphasis). By contrast, in the context of the above passage (Marx 1981, pp. 799), when Marx uses 'actual price of production' he probably just means value, because it seems here he adopts the simplyfing, though non-realistic assumption that the organic composition of capital in agriculture is the same as the social average of industrial branches, and so no absolute rent. Probably for that whole chapter (on differential rent) his use of 'price of production' stands for 'value'. It is possible that the 'social' value of which Marx speaks means market value, which would refer to a commodity unit. If he really was thinking of prices of production in the proper sense, then he would have said 'false social price of production' instead. 'The *differential* rent = the difference between market value and individual value' (Marx 1989a, p. 508). Differential rent can also be a negative quantity. It can exist with small-scale peasant ownership (the peasant pockets the excess himself). In the above passage (Marx 1981, pp. 799) it seems a 'normal' ('genuine') market value (24 shillings) would be a market value whose price formation was not determined in the peculiar way by the producer in the worst condition of the branch (60 shillings, producer A). So if price formation were determined normally like in industrial branches, which is by the average producer, in Marx's example two (A and B) of the four producers would have a negative differential rent, and two (C and D) would have (a positive) differential rent. Since we interpret Marx as thinking here of value, this means producers C and D sell above their individual value (even in this scenario of 'normal' formation of market value). With the 'false' formation of market value in agriculture (by worst soil, instead of by the average condition), three producers have (a positive) differential rent (B, C and D), and one (A) has no differential rent. The individual value of producer A, by being determinative of the branch's market value, becomes the first and only individual value exactly equal to market value; producer A's individual value stands 36 shillings above what would have been its 'normal' market value, and obtains no rent. If, however, by 'social value' in this one instance Marx (and Dashkovsky) meant rather the aggregate value of the total agricultural production (and not in the proper sense market value of the single commodity unit) then perhaps Marx's point could also be about, – still assuming agriculture has an average organic composition of capital (so its products' value does not stand above their price of production), – the transfer of value from industrial branches to farmers or landowners. The point namely that this transfer is not due to the normal redistribution of surplus value from the existence of a general profit rate, and so this can be called an abnormal transfer, which creates in a sense a false value of the total production of the agricultural branch (and as such it is not about the falsity of the value of a commodity, at the level of units, which we have seen in case of at least producer A is exact at its value, and so no landowner can receive rent from producer A).]

> producers. The individual value of some of these commodities will stand below the market value (that is, less labour time has been required for their production than the market value expresses), the value of others above it. Market-value is to be viewed on the one hand as the average value of commodities produced in a particular sphere [*otrasli*],[195] and on the other hand as the individual value of the commodities produced *under average conditions* (my italics. *I.D.*) in the sphere in question and forming the great mass of its commodities. Only in extraordinary situations do commodities produced under the worst conditions, or alternatively the most advantageous ones, govern the market value, which forms in turn the centre around which market prices fluctuate – these being the same for all commodities of the same species. If the supply of commodities at the average value, that is the mean value of the mass that lies between the two extremes, satisfies the customary demand, the commodities whose individual value stands below the market-value will realise an extra surplus-value or surplus-profit, while those whose individual value stands above the market price will be unable to realize a part of the surplus-value which they contain.[196]

The difference between industry and agriculture consists only of the fact that there rent, that is surplus-profit, is mainly connected with natural conditions, [while] here [in industry it is connected] with technical conditions. It is, in Bogdanov's expression, 'rent of technical improvements'. In conformity with this, rent in agriculture has a constant character, [while] surplus-profit in industry has – under free competition – a temporary character, inasmuch as we are talking about *a given group of enterprises*. But this surplus-profit also in industry is constantly preserved, in the sense that in every given moment in every branch there is a group of more productive enterprises, gaining more than normal profits, and another group, more backward, forced by the law of market value to receive less. From this point of view there is no difference between industry and agriculture.

Some expressions in the above passage about differential rent give reason to think that Marx considered value generated in such a way as if unreal. He speaks of *false social value*, created on the market. But false in relation to what? False from the point of view of the 'value' which will have to be counted in socialist society, that is, those real labour expenditures which the

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[195] [We translate throughout this text *otrasli* as 'branch', but here the (used by us) English translation renders it as 'sphere'. Dashkovsky in Russian anyway uses *otrasli* and *sfere* interchangeably (both for a group of companies that produces one particular product). Clearer would be having also a separate word for what the 'class' is of companies with one particular organic composition of capital, but producing different products.]

[196] Marx 1981, p. 279.

production of the given product cost, in given natural and technical conditions. Marx approaches, in this way, the law of value from the perspective of the principles of another economic system – the socialist. But for the capitalist system these principles do not hold. It operates according to the capitalist law of value,[197] which inevitably assumes a single price of commodities, irrespective of the quantity of labour and under what conditions they are produced. There is not any good justification to single out in this respect international exchange, where the same phenomenon would allegedly acquire the character of 'non-equivalent' exchange. One needs only put in place of the aforecited groups of enterprises *countries* or *groups of countries* with homogeneous conditions of production in the given branch, and take the latter in the *scope of the world economy* as a whole, and the same relationship steps again in front of us, but only on a wider scope. Marx himself compares in one place the position of a more productive country on the world market with the position of a manufacturer using a new invention before it came into general use.[198] Why then did he nevertheless consider unequal labour-exchange on the world market arising from unequal objective conditions of production [to be] a modification of the law of value? It seems to us that the only explanation can be [the fact] that Marx, speaking on international exchange, continues to operate exclusively with the concept of *national value*. From the viewpoint of national value, that is, the value which forms the normal scale of market measurement in a *given country*, the exchange of unequal amounts of labour is indeed a *non-equivalent* exchange, just as an entrepreneur working with backward means of production regards the low market price as 'non-equivalent' compensation of the individual value produced in his enterprise. But what is 'non-equivalent' from the national viewpoint is quite equivalent in terms of *world value*, which must necessarily exist once a world market and world economy exists.[199] This second category – world value – is absent in Marxian analysis; after all he in

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[197] [More accurately the 'general' law of value of commodity society, see footnote 193. Dashkovsky specifies 'capitalist' (law of value) here only as contrast to the 'socialist' lense that Marx adopted in this instance.]

[198] Marx 1981, p. 345. [Compare Ricardo: '[... T]he first discoverer of a new and better market [abroad] may, for a time, before competition operates, obtain unusual profits. He may either sell the commodities he exports at a higher price than those who are ignorant of the new market, or he may purchase the commodities imported at a cheaper price. Whilst he, or a few more exclusively follow this trade, their profits will be above the level of general profits [domestically]. [...] The effects are precisely similar to those which follow from the use of improved machinery at home. Whilst the use of the machine is confined to one, or a very few manufacturers, they may obtain unusual profits, because they are enabled to sell their commodities at a price much above the cost of production [...]' (Ricardo 1962, pp. 24–5). Analogies are not perfect; first, the general profit rate is initially lower in a presumably advanced country than what it is in presumably backward colonies, whereas the profit rate is higher in a firm using more advanced technology than in its backward competitors; the second difference is that the 'trade' abroad presumably concerns a commodity not produced at home, so would invoke inter-branch movement of capital, whereas competition is intra-branch in case of the firms ('homogeneous', as Dashkovsky put it).]

[199] [We add an excessive pointer: The concepts of a national value and a world value mentioned here have nothing to do with Dashkovsky's discussion on the preceding pages about the 'specific value' (of a group within

general addresses the question of external trade in passing, inasmuch as it is necessary for an abstract analysis of capitalist 'society'. *But this society Marx takes always within the borders of a determined country, within the frame of a determined territory*. 'Simple average labour, it is true, varies in character in *different countries* and at different cultural epochs, but in a particular society it is given'.[200] It is clear that under the guise of 'determined society' Marx understands the society of a determined country and era. What relates to the category of simple average labour, applies also to *socially necessary* labour-time. This is the labour-time, necessary for the production of commodities in a given *society*, that is, in a given country.[201] Consequently, also the category of value is limited in Marx to the frame of *national* economy. True, he sometimes refers to 'unit of average universal (*mirovogo*) labour' (in the chapter on national differences of wages), but he does not employ this unit systematically in the study of international exchange.[202]

1.4 World value[203]

And so, modification of the law of value in international exchange is, from our viewpoint, only modification of the *national* law of value. The world law of value is not violated by unequal exchange, but, on the contrary, finds in this inequality its implementation.[204] Marx points out in one place that an industrial country can pass off on the world market more productive labour as more intensive labour only for as long as competition does not compel it to reduce the price to the real value,[205] and thereby restore the equivalence of the exchange. But however much the price is decreased, competition is powerless to equalise the conditions of production in different countries, which 'persist in their inequality'. If the world price for a given commodity coincides, for example, with the national price of the most productive country, which will be forced thus to sell commodities 'at value', then the other countries producing the same product in less favourable conditions will be forced to sell it below the individual – national value and inequality remains as before. Competition can

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a branch) and the total value of a branch.]
[200] Marx 1976b, p. 135. My italics. *I.D.* [Same in Marx 1987b, p. 273. See also our footnote 36.]
[201] [The word 'socially': of a society.]
[202] [The reference is to the earlier quoted passage of Marx 1976b, pp. 701–2. A possible additional instance: '[T]he measure of the value [*das Maaß für den Werth*], e.g. of cotton, is determined not by the English hour of labour, but by the *average necessary time of labour* on the world market' (Marx 1991, p. 384; in German: Marx 1982b, p. 1907, italicised words are in English in original).]
[203] [We created this subsection and gave it this title.]
[204] [The phrases a 'national law of value' and a 'world law of value' here perhaps give the misleading impression of different operating principles. Dashkovsky's expression is clearer in the title of this section ('The law of value in the national and world economy').]
[205] [The already quoted line Marx 1976b, p. 702.]

never lead to a situation that the national product of each country is sold on the world market at a price that coincides with its actual national value. It would be possible only under the absurd assumption that commodities of the same kind have on the world market different prices, determined by country of origin of the commodity and its national value. But in such situation the congruence of world prices with national values would be bought at the expense of the declination of these prices from a uniform value of the world market. 'Six of one, half a dozen of the other'.[206]

Exploitation of some countries by others takes place under all circumstances – regardless of whether the products of more productive countries are sold at their real value or above value. The excess which the country gets from foreign trade is usually referred to as super-profit or super-value. But from the viewpoint of the *world* market and *world* market value, this super-value is the ordinary value, born from the laws of exchange economy.

The theory according to which obtained additional profit from international exchange without additional expenditure of labour is a distortion of the law of value, in appearance looks more revolutionary. Indeed: one country exploits the other, violating the elementary law of the exchange of equivalents. It is direct robbery and fraud. In order to stop exploitation, it is necessary to recover in full degree the law of value in international relations. But the whole course of our discussion leads to the point that exploitation happens not through a violation of the law of value in the international scope, but *on the basis* of this law, similar to how exploitation of labour force by the capitalist is founded on this same law, and not on fraud or trickery.

What really is violated in international exchange is the law of 'national value' – precisely because value acquires a more general [*vseobschij*] character, and on the world market it finds its natural completion. Of course, with this is not denied the existence of other forms of exploitation based on veritable equivalence.

In this way, when speaking of external commodity circulation, the dual character of value should always be borne in mind, which here has an immeasurably greater significance, than the dual character of value on the domestic market. An individual enterprise within a country makes up only a negligibly-small fraction of the national economy, and here we have all the time the operation of statistical averages and the law of large numbers. On the world market each country is 'an integral part of the whole', and quantity here is transformed into quality. World value carries here a slightly abstract character when along with it there is no

[206] [It all comes to the same thing. Proverb in Russian: *chto v lob, chto po lbu*.]

consideration of national value, being an immediate reality (insofar as the 'national economy' continues to still exist as a domain delimited from the world economy).[207]

On the other hand, it is necessary to constantly remember that the analogy between the situation of highly-productive enterprises inside a country and highly-productive nations in the world economy does not eliminate the 'small' difference that nations cannot as quickly catch up and overtake each other, as this happens with individual enterprises. In this regard Bukharin is quite right when in polemic with the German communist Boris[208] he wrote: 'You need to have a truly crazy fantasy in order to think that "today" one *country*, but tomorrow another would change places on the line of technical structure'.[209] Here are established relations of long-term inequality and exploitation, which by itself is enough reason for allocating international exchange into a special subject of study of theoretical economy, just as is done with the theory of ground rent.

All our considerations relate to the issue of the comparative productivity of different countries in *one and the same sphere* [*sfere*] *of production*. The question about equivalence of exchange is reduced in this case to the question about what amount of the *general equivalent* – money – different countries get in exchange for their national labour, expended in the production of the given kind of commodity. But money in international trade, even

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[207] [Dashkovsky's insistence on the continued existence of 'national value' alongside world value is similar to for example (in English) Kamenov: 'In this case we do not have a displacement by or substitution of one for another value, but a peculiar cumulation of both values' (Kamenov 1965, p. 33). Kamenov (1908–85), economist, also Bulgarian ambassador in Paris (1954–62). He criticised Günther Kohlmey's conception of world value as a weighted or arithmetic average of all national values (see Kamenov 1965, pp. 27–9). The basis for determining its value does not change. 'It is precisely because the value is determined by the production conditions in the internationally dominating, richer and more productive countries that they can exploit the poorer countries which must expend more labor in order to produce their export commodities'.]

[208] [Boris Roniger, born 1 August 1896 in Odessa to a wealthy merchant, in 1914–20 he studied law in Vienna and Prague, migrated to Germany in 1922, joining the KPD in 1923, and first worked at the Soviet Trade Mission (see Korsch 2001, p. 388). 'We live in the period of imperialist capitalism, of the world economy, which has stepped into the place of the national economy, and is the real basis and fundament of nations' (Roniger 1920, p. 93). He adhered to Luxemburg's theory in a strict way, calling Thalheimer a mere eclectic: '[Bukharin's] draft program is based on the notorious disproportionality theory of crises, which Marx expressly rejects in *Theories of Surplus Value*, but which was put forward by bourgeois economists and by Hilferding, the theoretician of the Second International, the agent of capital. The real cause of crises lies in the periodically occurring difficulty in realising the to-be-accumulated part of surplus value, as a result of the relative shrinkage of the non-capitalist market for rapidly growing capitalist production' (Roniger 1924a, p. 330, more on pp. 338 and following).

He joined Korsch's group with its *Kommunistische Politik: Diskusionsblatt der Linken* (1926–27). Frankfurt Institute scholarship (1923–30) for his study *Der Trustkapitalismus: Die Entwicklung der Weltwirtschaft seit 1914*, in which (if Roniger 1924a, p. 335 is an indication) he rejected Bukharin's notion of state-capitalist trusts. Doctorate in Leipzig in 1926, and in Heidelberg in 1931 (*Die Kritik der Genfer Produktionsstatistik vom Standpunkt des Trustkapitalismus*) under Emil Gumbel (probably a critique of the League of Nation's International Conference on Economic Statistics). In Basel in the late thirties (in contact with the anarchist Heiner Koechlin) he gave talks on Russian history (praised the works of Plekhanov in a 1930 review), which he ended at the suppression of the 1921 Kronstadt rebellion. Contacted Einstein in a unsuccessful attempt to get to the United States. Probably helped by Swiss (left-wing) theologians, he studied theology in Oxford (1939–45), where he went on to work. Intelligence officer with the American army in 1945 in Germany and Austria.]

[209] Bukharin 1924a, p. 19. [In English see Bukharin 1924b, pp. 133–38.]

more than in domestic, is an intermediary in the exchange of *commodity* for *commodity*, and in the end the question about the equivalence of international exchange boils down to the question about the proportions with which commodities of *different kinds* are exchanged for each other, though in modern commerce one and the same product serves most often as subject of both export and import simultaneously. In this consists the additional difficulty of analysis: there where *different spheres of labour* are compared with each other, the category of comparative productivity becomes *irrational*, is turned into an *imaginary magnitude*. It is absurd to try to insert concrete content into formulas, comparing productivity of the labour of industry and agriculture, of coal and textile branches, and so on. Likewise, also concepts such as 'objective conditions of production', 'socially necessary labour-time' and so on, lose every content when heterogeneous branches of labour are compared.

In some sense the mutual relation between two or several countries, exchanging different kinds of products, is built on formulas directly contrary to the formulas expressing the relation of *competition* of countries on the world market, that is, of countries producing one and the same product for exchange. There where the matter is about a homogeneous sphere of production, one country wins the more, the lower the productivity level of the other country is. By contrast, when countries act as representatives of heterogeneous areas of production, each of them wins all the more from exchange, the higher the level of productivity is of the other countries, because it gets in this case more products in exchange for its own, though also not a greater value.

In the first case the struggle goes to *elimination*. The strongest competitor is committed to the full exclusion of the weaker, less productive one. In the second case too, there is struggle for the proportion of the exchange (each side seeks to take more and to give less), but this struggle cannot put itself the goal of mutual elimination, inasmuch as both parties mutually condition their existence, as commodity-producers.

In the first case the more productive country aims to make production impossible for other countries in the given branch, and to this end, renders pressure on prices, and so on. In the second case, by contrast, every party strives to such a proportion of exchange, where the production of a product less advantageous qua local conditions would be entirely moved to the other party. This is obviously achieved easier, [to] the [extent that] more labour of a foreign country in the form of its specific products can be obtained per unit of national labour. Thus, the exchange of products of a diverse kind also has the character of struggle, and not harmony of interests, but this struggle is not to destruction, but to subjugation and exploitation, a struggle for the 'equivalent'.

In the first case the method of low prices is applied, 'export dumping', and so on. In the second case, by contrast, the course is kept towards *high* prices. A typical example of such policy is the case when a loan, provided to some country on the local monetary market, is conditioned by the obligation to spend it on the purchase of commodities of local origin, charged at exorbitant prices. This is the direct opposite of the system of export dumping, and moreover such a system that acquires dominant significance in modern international relations.

But regardless of this opposition, both the competitive and 'counterpartive' struggle represent one and the same economic phenomena. Both one and the other express the aim to get a bigger amount of the others' labour (in the form of commodities or money) in exchange for a smaller amount of one's own labour. And though between heterogeneous branches one cannot 'build a bridge' for direct comparison of productivity, such a comparison is fully feasible for different *countries*. One can compare coefficients of productivity of individual branches, and from them make a summary index. One can compare for this purpose the average organic composition of capital of different countries. One can, finally, if it is a matter of two branches of production absolutely linked each to their national territory, compare the rate of exchange of the products of these branches to the product of a *third branch*, represented in both countries, and get a *common measure* for comparison. Thus, our analysis, which was confined to one and the same sphere of labour, can easily be extended to a whole national-economic body.

So, from the viewpoint of the exchange proportions being established on the world market, the influence of objective factors of productivity entirely dovetails with the influence of subjective factors. Inequality of labour-exchange, – whether it follows from the dissimilar national quality of labour or from the dissimilar natural and technical conditions, – is alike determined by the law of world value. Nevertheless, there exists a solid reason why subjective factors of inequality should principally be differentiated from objective factors.

Under the unequal exchange resulting from objective conditions of production one country really assigns itself the labour of another nation. *The expended labour is equal, and together with this a greater amount of labour is given for less*. Here is a plain fact of exploitation, though it occurs without violation of the law of value.

The situation can be formulated as follows: under different foreign conditions of productivity equal *value* (*world value*) is exchanged, through unequal amounts of *labour*. A lesser amount of labour exchanges for a greater amount.

With the inquality resulting from unequal intensity of labour, *equality is not violated* in respect to value, *nor* [is it violated] in respect to the amount of labour.[210] Here equal values are exchanged (again, from the perspective of world value). Here also *equal amounts of labour* are exchanged, if one provisionally converts more intensive labour into units of less intensive, or vice versa. One hour of labour is exchanged for two hours, because it really includes in itself a *double* amount of labour compared with the hour of a less intensive worker. Here an *immediate* relation of exploitation is absent. But it must be constantly kept in mind that more intensive labour contains, besides amount, also the element of *qualification*, and a country has the [very] ability to rise above the labour qualification level of other countries to the extent, that in the world market it procured advantageous conditions, resulting from real relations of exploitation. Bukharin too notes this in his polemic with Roniger.[211]

Moreover, the distinction of objective conditions of productivity and intensity of labour, inasmuch as the matter is about international exchange, has sense [further] still from the special viewpoint of capitalist economy. There where a country sells the products of its production at higher relative prices thanks to technical or natural advantages, 'the rate of profit rises, since labour that is not paid as qualitatively higher is nevertheless sold as such'.[212] With difference in labour intensity this excess boosting the rate of profit disappears because the more qualified or intensive labour force is paid above average level.[213] It is

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[210] [Our emphasis on *nor*.]

[211] [Bukharin 1924a, p. 20. '*Why* is the *qualification* of English workers different [than Indian workers]'? In the context of the thesis which Bukharin defends that super-profit from exploitation of the colonies allows for bribing the Western working class into opportunism, the economic points Dashkovsky here highlights are sometimes lost, namely that that bribing could be in the form of provision of better qualification, and that the labour-time of better qualified labour-power or more complex labour counts as a higher amount.]

[212] Marx 1981, p. 345.

[213] [See Grossman 2018, pp. 157, 165–6; and Grossman 2021, pp. 490–98. Kuczynski's studies in particular often focus on intensity, for example chapter 'Intensity of work versus safety measures' (Kuczynski 1937) and his multi-volume *A Short History of Labour Conditions Under Industrial Capitalism*. There is a chapter on the rise of labour intensity in Zagorsky 1933 (pp. 51–9). Karl Niebyl (1905–85) likely analysed data on intensity in Germany, but lost his materials due to the Nazis in 1933. In a rewritten study in English he argues that inattention to the increasing intensiveness of labour is what allows many trade unionists to triumphantly acclaim an 'increase' in real-wages in the last forty years (see Niebyl 1945, p. 118). Bukharin's contention that the situation of the European workers improved before the War (from plundering colonial peoples) was irreconcilable with the historic facts, as Bukharin himself later recognised (see Niebyl 1945, p. 260). 'The number of looms served by the worker has approximately tripled during the period from 1865 until 1912, in which period the number of spindles per worker has doubled. While it is impossible to deduce in quantitative terms from the increased number of machines tended by the average worker, the corresponding rise in the intensiveness of his labor, all indications point strongly in that direction. The conclusion of increased intensiveness holds notwithstanding technological improvement, to say nothing of situations characterized by no technological advance where it is thus the result of sheer speeding up. Even in the former situations, rather characteristic of modern technology, the rate of increase in productivity is overtopped by the rate of increase in the intensity of labor' (Niebyl 1945, p. 198). On this last point he cites *Körper und Arbeit. Handbuch der Arbeitsphysiologie* (1927) by Edgar Atzler.]

necessary, however, to keep in mind that the value created by more intensive labour is not found in any necessary relation to the salary received by wage workers.

Finally, the category of labour intensity differs from labour productivity, like abstract and concrete labour. One can determine the average intensity of the whole national or world labour *without regard to determined branches of production*. The average productivity of labour is a *concrete* concept: it has sense only in application to a determined sphere of labour and is measured by a number of commodity-units, that is, again by concrete numbers.[214]

Our proposed addition to the theory of international exchange (the inclusion of the category of world value) is the necessary logical culmination of the Marxist idea about value. As is known, for the classics the law of value existed primarily as a law of exchange proportions. Only Marx enclosed in this category an internal content, independent of the quantitative proportions of exchange, [and] gave it an independent existence. Herewith a very important theoretical problem was resolved. It proved, for example, possible to give a *value* expression to the whole national product. Were value only an exchange proportion, the phrase 'value of the social product' would sound meaningless.

> The social total of exchange values loses its nature of being exchange value in the same degree as it becomes the total of exchange values. A, B, C, D, E, F have exchange value in so far as they are exchanged for each other. When they have been exchanged, they are then all products for their consumers, their purchasers. By exchanging hands they have ceased to be exchange value. And thereby the wealth of society, which is composed of exchangeable values, has disappeared. The value of A is relative; it is its exchange relation to B, C, and so on. A+B has less exchange value, because its exchange value now exists only in relation to C, D, E, F. But the total of A, B, C, D, E, F has no exchange value at all, because it expresses no relation. The total of commodities is not exchanged for other commodities. Therefore, the wealth of society, which consists of exchange values, has no exchange-value and is consequently not wealth.[215]

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[214] However, some authors consider also the category of average labour to be unreal, insofar as for the determination of this average magnitude it is first necessary to perform a leveling of technical and natural conditions of labour (see for example Buch 1896, pp. 159 and following). This objection, however, concerns only practical difficulties of calculation and does not have principled significance.

[215] Marx 1989a, pp. 102–3.

Ricardo, thus, undoubtedly contradicted himself when he spoke about value of the national product and about foreign trade's influence on it.[216] The contradiction is resolved only with the Marxist conception of value, as an independent category. But Marx operated primarily with the category of *national* value. Therefore, in regard to international exchange he was in the situation in which Ricardo and others were in regard to domestic exchange. On the world market there exist *exchange proportions*. From this viewpoint the sum of the values of commodities forming on the world market represents the same imaginary magnitude, as value of the national product was in the classics. Only the introduction into currence of the category of world value expels the idea about value as exchange proportion from its last refuge. This is fully in line with the words of Marx that only on the world market the commodity deploys all its specific properties, and money receives its completion in the form of world money.

The concept of 'world value' is not a vacuous abstraction, but a perfectly tangible regulator of the world market. Once world price exists, once there is world money, then necessarily also what is represented in money and price must exist: value. The category world value operates very often unconsciously in modern economists, in particular in representatives of the Austrian school, – when they are engaged in calculation and comparison of the national assets and national income of different countries. Such calculations get their meaning only from the fact that there exists a *common* unit of measurement – the unit of world value (no matter, whether expressed in rubles, dollars or pounds), and the national income of each country expressed with the help of this unit is nothing other than the *specific* value created by the annual labour of the workers of this country, a determined fraction of the value of the entire world's annual product.

So, when it is said that the United States, having around six to seven per cent of the earth's population, creates an annual production equal to forty per cent of world production, it is quite obvious that this calculation is made with the help of *world units*. Otherwise no comparisons would be possible. In a *national* scale the labour of a 115-million population equals the value created by this labour, and nothing more. Whereas the figure of forty per cent shows a *specific mass* of the labour of these 115 million in the *world economy*. From it can be concluded how many hours of non-American labour are equal to one hour of labour of an American worker. Such overwhelming preponderance cannot be explained, of course, only by the superior intensity of American labour. A much greater role here play the

[216] [See last sentence of this section.]

technical and natural factors of production, obviously involved in the determination of the specific (national) value of the United States.

Inclusion of the category of world value gives a clear answer to [still] another question in respect to which there is a lot of confusion. Does the value of the national product, assuming the amount of living and dead labour expended on its production stay the same, change by an improvement of natural and technical conditions and by an increase of productivity?[217]

It is usually considered that in such cases only the value of the commodity-units changes (inversely proportional to the growth in productivity), but the value of the entire national product remains unchanged. This, of course, is wrong. With a growth of productivity, or more accurately of the productive force of national labour, also the created by it value grows, even though the number of workers, the number of labour days and the subjective quality of labour has remained unchanged. The reason is the changed specific mass of this labour on the world scale. Hence often a rapid growth of national income is observable in a developing industrial country, which surpasses the country's growth of employed labour forces and growth of fixed capital. This is the result of the growth of labour productivity.[218] If, for example, in a country the share of fertile land in treatment increases or land productivity increases, then inasmuch as the price of agricultural products is defined by world conditions, the *value* of agricultural products increases, even assuming a reduction in the number of worker hands in agriculture. That which is true for individual branches, is also true for a whole national-economy.[219]

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[217][It seems logical that Dashkovsky throughout his discussion of the third cause has assumed that the branch has a single (same), unchanged organic composition of capital. Technological advancement does not always translate into higher OCC, sometimes it even can be accompanied by a decrease in OCC, which incidentally was one of the arguments of critics of the tendency of the falling proft rate (named in Plekhanov 1902b). But in discussion of the first cause, Dashkovsky examplified differences of OCC (within one branch, for instance textile production) by advanced textile machinery and low-tech spinning wheel, respectively, an examplification that apparently (also) involved a technical 'objective' condition (seemingly in an unavoidable manner), so Dashkovsky's logical distinction might seem academic to some readers. Likewise, for the separation between a 'subjective' factor such as labour intensity, and an 'objective' factor of productivity, that in practice mostly occur together. But he has given arguments for distinguishing these (at least in his theoretical presentation). In order to compare national economies with heterogeneous branches, Dashkovsky resorts to a concept of (national) OCC, which transcends yet encompasses technology level (so no full correspondence).]

[218][In keeping with the anology of a higher 'specific value' of the whole output of a firm with above-average technology within a branch, it seems an upcoming nation (as Germany was, and it is perhaps good to take an industrial exporter here) would need a productivity growth that not only catches up, but places it above the world average technology (in order for the value of its whole product to grow). And though Germany's 'specific value' (within this branch) worldwide increases as a portion or share, the total value (of the branch worldwide) remains unchanged, and so Germany's increase came at the expense of other nations' (decreased) share. Incidentally, given that the branch's total value has not increased, it also seems the general profit rate of the world (if it exists on a world scale) could not be raised thereby.]

[219] With this is explained the sharply increased fluctuation of profitability of agriculture in the process of expansion of world-economic ties. The fluctuation of harvest, which in conditions of the limited national market is compensated by internal fluctuation of grain prices, in conditions of the world market is not compensated in a sufficient degree. *Value* of the whole agricultural product, which in an 'isolated country' remained a more or less constant magnitude, becomes a variable magnitude when the national economy forms

With national labour-productivity growth, the national product's value expressed in units of world value increases proportionally to the fraction, whose numerator will be a coefficient of the national labour-productivity growth, and whose denominator will be a coefficient of the decrease of world prices. This fraction becomes transformed into a unity, in other words, the two coefficients become equalised, only when the productivity advancement is distributed over the whole world economy and ceases to be considered 'as an extensive magnitude'.[220] Inasmuch as foreign trade promotes growth of national labour-productivity (concentration of production in most profitable branches, expanding the scale of production under the influence of the extension of the market, which entails an increase in productivity of every larger production unit, and so on), to that [same] extent it contributes *immediately* [or directly] to the increase of the value of the national product. Ricardo's opinion is in this regard undoubtedly erroneous.[221]

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a component part of the world economy.

[220] [The phrase in quotes is Marx's (from a different context): 'If the intensity of labour were to increase simultaneously and equally in every branch of industry, then the new and higher degree of intensity would become the normal social degree of intensity, and would therefore cease to count as an extensive magnitude' (Marx 1976b, pp. 661–2).]

[221] ['No extension of foreign trade will immediately [or directly] increase the amount of value in a country, although it will very powerfully contribute to increase the mass of commodities, and therefore the sum of enjoyments' (Ricardo 1821, p. 131). Marx's critical comments on this are in London Notebook 8 (from 1851), partly translated in Pradella 2015, pp. 100–1, and which allegedly are alluded to in his comment on Ricardo's 'false theory of international exchange' in Marx 1986, p. 252 (according to MEW-editors, see Marx 1983c). We will return to this in our to introduction to chapter five. It is not clear why Dashkovsky insists on the word 'immediately' (or directly). Perhaps it is just a printing error. It seems to make more sense it he had written 'indirectly'.

In fact for Miklaschevskij (1904), Ricardo's oversight here consists of the fact that he did not clarify the meaning of the word 'immediately'. Miklaschevskij states: 'The value does not increase [immediately], but the received big amount of use-values (means of consumption and of production, raw materials) gives the possibility to increase the amount of contents of labour, and this new labour creates new value, that is, *indirectly* an increase of value is possible' (p. 34, our emphasis). '[I]nternational trade not only gives the possibility to receive commodities with lesser socially-necessary expended labour than was given in exchange, but herewith frees up from each of them some fraction of labour, [and so it] gives the possibility to expand the scope of production in other directions, that is, it gives the possibility to accomplish, – and to which Ricardo vaguely pointed, speaking [by insinuation] about the possibility of – an "indirect increase" of the sum of value. Every extension of trade on the principle of a new rate of socially-necessary labour, frees up some fraction of labour for new needs satisfaction, [and so] can promote the expansion of production (see Marx 1981, p. 344)' (Miklaschevskij 1904, p. 120, reference here to Marx is made by Miklaschevskij himself).

And Ricardo, instead of writing 'increase', more precisely had to have put that an extension of foreign trade does not 'modify' the amount of value, that is an extension of trade also does not 'reduce' the amount of value: 'Putting its exchange on the principle of comparative cost, a country receives an alleviation in its manufacture over the whole sum of its advantage, and the same applies for the other country with which it carries on the exchange. It must naturally modify its objective representation about the trouble of production, that is about value, in the sense of its [that is, value's] reduction, and not of its increase' (p. 35).That is, in Ricardo's model of comparative cost both countries save on labour. Thus Ricardo's wording reveals 'his dim feeling that, if not an increase, [at least] a "modification of value" is [in fact] possible, in other words, that the whole problem does not at all turn only around the ground of representation about *absolute value* [that is, understood as a determined amount of labour], *but also about exchange value* [that is value]' (Miklaschevskij 1904, p. 35).]

2. Money and international commodity circulation

The theory of international exchange and world value conveys some extra strokes[222] also to the problem of *money*. To the degree that a product is turned into a commodity, accidental equivalents are turned into a general [*vseobschij*][223] equivalent and the latter into money. And since a product gets full development into the commodity form on the world market where value gets its finished expression in world value, so also developed monetary exchange finds its natural scope there where money is turned into world money, dropping its 'national uniform'. In domestic trade precious metals, having passed a number of stages of development, function in a determined purely-local form, in the quality of standard of price, coin and small change [token coin], in the quality of '*symbol of value*' in the fulfilment of the function of means of circulation. Crossing the domestic sphere of trade, taking on itself the role of world money, gold (and silver) returns to the starting point of its development, coming out again as a direct commodity, an amorphous crude metal, the value of which is embodied in its weight.

We are here not interested in the details concerning the *functions* of precious metals as world money. We view them here only in one function – in the quality as general measure of value or the material embodiment of labour time, with the help of which commodity value is compared. We herewith leave aside also the question about inter-currency courses and their fluctuations. 'As world money, national money discards its local character; one national money is expressed in another, and in this way they are all reduced to their gold or silver content'.[224]

Consequently, we start from the assumption that the exchange ratio of the various national currencies coincides exactly with the ratio of monetary parities, or – what is the same – that in all world commodity circulation there figures only one 'currency' – gold in its immediate natural form or formlessness. The question is reduced to the clarification of the conditions determining the value of this 'currency' on the national and the international scale. Let us add that we consider gold here only in its role as general equivalent – money [and not as commodity for industrial use].

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[222] [Moves for musical instruments.]

[223][The English translation of Marx's concept should be '*general* equivalent', and not *universal* (the translation is wrong in Marx 1976b). It is correct in the French edition of *Capital* (chapter one): 'la forme équivalent *général*'. Otherwise Dashkovsky's expressions further on would turn into pleonasms like '*universal world* labour'.]

[224] Marx 1981, pp. 434–35.

2.1.[225]

The value of money is often understood in two different senses: as ratio of money to commodities (or, in today's established terminology, – as the purchasing power of money), and *as value in the proper sense*, taken *without relation* to the value of any sort of other commodities, but solely as the embodiment of the amount of socially necessary labour expended on the production of money. Marx everywhere strictly distinguished these two conceptions.

If money is considered by us as world money it must represent itself, obviously, also *world value*, as expression of general world labour. This world [or global] value of money, precisely because it is global, *must be identical for all countries*. In the opposite case money could not serve as a general measure. With the help of world money, the product of every single country is subjected to a social market account, and the labour spent on its production is brought to the scale of world labour. Marx emphasises this identical value[226] of money in his polemic with Ricardo where he indicates the quantity theory's inability to explain the international movement of prices and the redistribution of precious metals: 'How is the normal level disturbed, [that is] how is the international balance of *currencies* disturbed, or how does money cease to have the same value in all countries, or, finally, how does it cease to pass at its own value in every country'?[227]

But[228] the world market turns the variety of national values into world value, the national expenditures of socially necessary labour into world socially necessary labour – by establishing a distinctive economic hierarchy among different countries. We have seen how a lesser amount of labour of one country can be exchanged for a larger amount of labour of another country.[229] Which expression does the monetary form of exchange give to this process [of unequal labour exchange]? Obviously, an identical amount of labour,[230]

[225] [We create these subsections.]
[226] [Dashkovsky here used the Russian word *tsennost'*, instead of the usual *stojmost*.]
[227] Marx 1987, p. 405. [We actually here use Stone's translation (Marx 1904, p. 243). Ricardo in his early works held to an international (same) value of money, but later shifted to the position that the value of money is never the same in any two countries. Torrens upheld this latter position in a dispute with Senior, who respectively favoured the position of the early Ricardo (see Senga 2012, pp. 280, 281). Compare: '[Toichi] Nawa insists that the Marxian principle of foreign trade should be understood along the lines of Senior's theory, and there exists between them a strong tie as regards the theory of money and foreign trade' (Kojima 1953, p. 58). 'From what [Marx] wrote about international value or how the law of value operates in the world market, one gets the impression that his theoretical framework was not very different from the Ricardian theory as modified by Nassau Senior' (Gomes 1987, pp. 153–4). Dashkovsky's recognition here that money for Marx has a world value somewhat runs counter to his earlier claim that usually in Marx's writings the concept of value is merely national.]
[228] [Here the Russian word *no* ('but') appears to signify a key moment in the reasoning.]
[229] [See subsection 1.3.]
[230] [The perspective here is thus of the total output of a producer, and not of an individual commodity.]

expended in different countries, should find its expression in *dissimilar amounts of world money*,[231] dissimilar to that extent, in which these *equal* expenditures of national labour are considered as *unequal* amounts of world labour. In other words, money, having a unified world value in the quality as embodiment of world labour, has simultaneously a *dissimilar national value* [*in the quality*] *as exponent*[232] *of expenditures of national labour*. For the attainment of one and the same sum of money in different countries a dissimilar amount of labour must be expended.

> In proportion as capitalist production is developed in a country, so, in the same proportion do the national intensity and productivity of labour there rise above the international level [...] The different quantities of commodities of the same kind, produced in different countries in the same working time, have, therefore, unequal international values, which are expressed in different prices, i.e. in sums of money varying according to international values. The *relative value* of money will therefore be less in the nation with a more developed capitalist mode of production than in the nation with less developed.[233]

Elsewhere, analysing the question of the causes of the high cost of agricultural products in the rich industrial countries, Marx also mentions the dissimilar value of money. 'The lower value of money in the wealthier countries (i.e. the low *relative* production costs of money in the wealthier countries) does not enter into it at all. For the question is, why it does not affect their industrial products in competition with poorer countries when it does affect their agricultural products'.[234]

The unequal [or dissimilar] value of money, therefore, has in that statement not any relation to the phenomenon of the different purchasing power of money in various countries, which is connected with the laws of fluctuation of the international level of price.[235] On the contrary,

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[231] [Again the perspective is of the sum price of the total output, so not the price of individual commodities.]

[232] [Exponent: spokesman, mouthpiece, representative. Thus Dashkovsky here means money as exchange value, representing the value of all other commodities. This is in contrast to money as *embodiment* of (general) labour.]

[233] Marx 1976b, p. 702 [our emphasis].

[234] Marx 1989a, p. 255 [our emphasis].

[235] [Purchasing power refers to the number of *physical* commodities a defined weight of gold obtains. Dashkovsky's assumption is that the money (a determined amount of gold) obtains the same amount of physical commodities (produced in different countries). His focus is rather on what amount of *labour* the money (a weight of gold) obtains in the exchange for the same physical commodity (or same number of commodities). In effect his perspective here is of the individual (ordinary non-monetary) commodity. The potential difficulty for readers in understanding this focus on what 'amount of labour' a piece of money 'obtains' (or represents) during an exchange, lies in the fact that it addresses a purely 'theoretical' question (and is not about physical amounts of commodities).]

even assuming an absolutely identical level of commodity prices worldwide, the value of money will be different from the viewpoint of the labour expenditure which the extraction of money costs in each individual country, from the viewpoint of national value. This inequality of the relative[236] value of money is derived precisely from the fact that money – is an identical measure, applied to dissimilar types of labour. This can be understood with an analogy to another form of inequality, which Marx describes in his *Critique of the Gotha Programme*.

> *Equal right* is still constantly encumbered by a bourgeois limitation. The right of the producers is *proportional* to the labour they supply; the equality consists in the fact that measurement is made with an *equal standard, labour*. But one man is superior to another physically or mentally and so supplies more labour in the same time, or can work for a longer time; and labour, to serve as a measure, must be defined by its duration or intensity, otherwise it ceases to be a standard of measurement. This *equal right* is an unequal right for unequal labour. It recognises no class distinctions, because everyone is only a worker like everyone else; but it tacitly recognises the unequal individual endowment and thus productive capacity of the workers as natural privileges. *It is, therefore, a right of inequality, in its content, like every right*. Right by its nature can exist only as the application of an equal standard; but unequal individuals (and they would not be different individuals if they were not unequal) are measurable by an equal standard only insofar as they are made subject to an equal criterion, are taken from a *certain* side only, for instance, in the present case, are regarded *only as workers* and nothing more is seen in them, everything else being ignored.[237]

It suffices to replace here 'equal right' with the concept of 'equal monetary measure', and to put 'national economies' in place of 'individuals', – and we get the exact formulation of the

[236] [Dashkovsky is repeating this phrase 'relative value' from the passage that he just quoted (Marx 1976b, p. 702). Right after having stressed that it is here not about the purchasing power, it is evident that Dashkovsky has in mind the 'national value' of money. The point here fits with Dashkovsky's earlier claim that usually for Marx the concept of value is national (in this case it is the value of the commodity gold). The word 'relative' for some readers might resemble something like money's function of expressing the value of other commodities (while a phrase like money's 'absolute value' would have indicated its own value). However, the point here is not about such 'relative *form* of value' from the first chapter of *Capital*, though Marx uses the distinct phrase 'relative value' also a few times there, as there it is about the real (practical) representation (in exact manner) of the *own* (absolute) value of a certain commodity through the *physical body* of a different commodity (which is the form). By contrast, in the two Marx-quotes which Dashkovsky interprets, the word 'relative' does not apply to a form, and instead it is about a non-real (theoretical) 'representation' of the value of a certain commodity (gold), – a value that is not the (exact) same as its own (absolute) value, – through (hence relative) the (non-physical concept of) *labour* of a different commodity (or rather commodities).]

[237] Marx 1989c, pp. 86–7.

dialectical transformation of a single world monetary value into various relative or national values.[238] In essence here happens the same which daily and hourly can be observed within the national economy, where equal labour of different individuals is realised in different monetary sums only because it proves to be unequal under its discount in units of socially necessary labour. The single amendment which should be made in the provided formulation of Marx and which derives from our own preceding discussion, consists merely of the point that equal expenditures of individual labour may prove to be unequal not only in intensity but also in productivity: the results by and large will be similar, insofar as there will be no possibility to put all workers in completely similar technical and natural conditions of production. The same applies to national economies.[239]

2.2

The value of gold, [its] national or international [value], exists independently from the level of commodity prices. It is defined, like also the value of every commodity is, by the labour time required for production. But some circumstances complicate the matter. First of all, by far not everywhere gold-bearing land exists, not everywhere, consequently, can one *directly* mine gold. Consequently, not everywhere the possibility exists to determine the labour time required for the production of gold. Secondly, in world trade the value of gold itself also cannot be determined, it is known *by implication* through *commodity prices*, inasmuch as gold acts as the general equivalent, but prices always are *relative* figures: they express the value of gold in relation to the value of commodities. Thus, although we also aim under analysis of the value of money, to circumvent the question of its purchasing power, as

[238] [That for Dashkovsky the direction goes from world value to national values, underscores the importance and priority the concept of value has in his understanding as essentially world value.]

[239] In a sense this 'inequality' is analogous to the so called 'consumers rent', with which the psychological school assiduously potters. This rent, as is known, is derived as a result of the oneness of the market price under a dissimilar financial position of the buyers-consumers. For the rich as for the poor consumer, a pound of bread for example, has one and the same price, although the marginal utility of the paid sum of money is many times lower for the first than for the second. Whence the consumers rent of the rich consumer. It could be destroyed only in case everyone would pay for the commodity a price which is proportional to one's financial position (more precisely, inversely proportional to the marginal utility of money for the buyer, as the psychological school formulates it). But then the unity of market prices would have disappeared, and together with it, also the market. It is completely obvious that 'consumers rent' is an empty word game and that the issue here lies not in psychological evaluations, but in the objective fact of financial inequality. But the analogy consists of the point that an equal measure – a single market price – applied to unequal figures – gives unequal results. The same thing happens with the scale of a single world value – with world money – when it becomes the measure of national value. One and the same sum of gold expresses different amounts of national labour time depending on the place which is occupied by a given country or nation on the ladder of labour productivity, while at the same time being a representative of a determined amount of average world labour.

secondary for our question, practically we only through this purchasing power can reach to the root of things – to the nature of money itself.

Inasmuch as gold is the selected general equivalent, the labour time spent on its production itself is directly general labour time. World value is expressed in units of gold, which represents from itself the materialised labour time of gold producers. The units of labour time of these [gold] producers serve thereby as the scale of world values. The world value of gold is thus the amount of labour spent on its actual production. Here, of course, is taken into account that socially necessary labour with which in general the value of products of the mining industry is measured. This labour or the corresponding to it labour time is the world scale, which may perform its function with equal success entirely regardless of its own actual magnitude. Whether an ounce of gold represents one hour or one day of labour – this does not at all hinder it from embodying the general measure. But what determines the value of gold in those countries that do not have [their] own mines? Here only an account by implication is possible. 'It is evident [...] that in countries where gold and silver are produced, a definite amount of labour time is directly incorporated in a definite quantity of gold and silver, whereas countries which produce no gold and silver arrive at the same result in a roundabout way, by direct or indirect exchange of their home products, i.e. of a definite portion of their average national labour, for a definite quantity of labour time materialised in the gold and silver of countries that possess mines'.[240]

But here comes into force the law of value, according to which a lesser amount of labour can be traded for a larger amount. Gold bullion, which on the site of its production represents five hours of labour can be exchanged for a commodity which is produced in another country for only two hours. It will in this latter country be regarded precisely as a product of two-hours labour, although it cost five hours. Consequently, gold, *depending on one or other proportion of the exchange*, will represent in different countries *different* labour-times, although actually it is produced in a [single] determined time. It will have a dissimilar

[240] Marx 1987, pp. 305–6. [The production of gold within the US itself during the heyday (or last stage around 1968) of the Bretton Woods system hardly proceeded in a normal condition, as a contemporaneous analyst noted: '1940 production of nearly 4.9 million ounces still stands as a United States record. During World War II, the American gold mining industry suffered a blow from which it has not yet recovered. War Production Order L-208, issued by President Roosevelt on Oct. 8, 1942, closed all gold mines in the United States. ... By 1945, U. S. gold production was down to 955,000 ounces, the lowest total since 1848 [before the California Gold Rush]. Gold produced during the war years was a by-product of the mining of other metals, such as copper or silver, or was from placer operations. Meanwhile, many of the 9,000 gold mines forced to close in 1942 were destroyed by flooding or by collapse of shafts and tunnels. Although gold output shot up to almost 2.4 million ounces in 1950, it has not since exceeded 2 million ounces a year' (Worsnop 1968, no page). The proportion of byproduct gold was 37 percent of the total (in the US) in 1964, and so we find in that year at most 30 tons was purposefully mined. France itself (excluding French Guiana) was a nation with some active gold mines until the early 2000s, though not more than a couple of tons annually.]

relative [that is national] value. But its absolute value, expressed in units of world labour time, too will not coincide with the actually expended time of its production. If the average national labour in countries that produce gold is in its intensity half below world labour, then it will also be considered only in half of its actual magnitude, and, vice versa, consequently, the labour time which gold represents as world commodity or general equivalent is the time actually spent on its extraction, *but accounted with world units of labour-time*. This accounting happens 'behind the back of the producers' on the basis of the exchange proportions between commodities and gold, which are established at the place of contact of mined gold with world commodities, and then also further, in world commodity circulation.

> At the place where gold is produced, it is a commodity like any other commodity. Its relative value and that of iron or of any other commodity is there reflected in the quantities in which they are exchanged for one another. But this transaction is presupposed in the process of circulation; the value of gold is already given in the prices of commodities.[241]
>
> In addition to particular movements of world money which flows backwards and forwards between national spheres of circulation, there is a general movement of world money; the points of departure being the sources of production, from which gold and silver flow in various directions to all the markets of the world. Thus, gold and silver as commodities enter the sphere of world circulation and in proportion to the labour time contained in them, they are exchanged for commodity equivalents before reaching the area of domestic circulation.[242] They accordingly already have a definite [magnitude of] value when they turn up in these areas. Their relative value[243] on the world market is therefore uniformly affected by every fall or rise in their

[241] Marx 1987, p. 327.

[242] [Marx probably has here in mind the situation of the California gold rush, where (non-American) merchants from various countries (outside the US) sold products (equipment and so on) to the miners. When these merchants received gold in payment (from the miners), the received gold was in a physical sense located on an international level (outside any nation) for some time, that is not yet brought to (and spent in) the home countries of the merchants.]

[243] [The use here of the phrase 'relative value' is at odds with Dashkovsky's discussion of the two Marx-quotes in the previous subsection. It can be ruled out that Marx would by 'relative value' have meant the purchasing power (exchange value or relative form of value). Rather, he most likely still was using it in the sense of Ricardo, that is just meaning value, just as Marx earlier did in *Poverty of Philosophy* (see Marx 1976a, pp. 120 and following). Thus the phrase should be read: 'Their value on the world market is therefore uniformly affected' (and so on). Marx commented on its use in this sense (of value) by Ricardo, and that by contrast for 'exchange value' Ricardo used the phrase 'comparative value' (see Marx 1989a, pp. 397–98). The word of 'uniformly' affecting the value, indicates Marx assumed a single 'world value'.]

production costs and is quite independent of the degree to which gold or silver is absorbed by the various national spheres of circulation.[244]

Just as in theory [*ihrem Begriff nach*] gold and silver as money are [the] general[245] commodities, so [they assume as] world money ... the appropriate form of existence [*Existenzform*] of the universal[246] [commodities, – these universal commodities being gold and silver]. In the same proportion as all [products] are exchanged for gold and silver these [gold and silver] become the transmuted form [*Gestalt*: impersonation] of all commodities and hence all-round [*allseitig*] exchangeable commodities. They are realised [*verwirklicht*] as embodiments of general [*allgemeinen*] labour time in the degree that the [metabolism of the actual labours] [*der Stoffwechsel der realen Arbeiten*][247] becomes world-wide [*den Erdboden umspannt*]. They [gold and silver] become general [*allgemeines*] equivalents in proportion to the development of the series [*die Reihe*] of particular equivalents[248] [in Russian: *ekvivalentov*] which [that is, this series] constitute[s] their [gold and silver's] [sphere] of exchange.[249] Because [*Weil*: inasmuch as] the [own] exchange-value [*Tauschwert*] of [the] commodities is universally [*universell*; in Russian: *universal'no*] developed [*entfalten*] in international circulation, it [that is, the commodities's] [impersonation (*Gestalt*),] [...] transformed [*verwandelte*] into gold and silver [, appears] as world money.[250]

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[244] Marx 1987, pp. 382–83.

[245] [Again we correct the English translation (which had 'universal'), because Marx is comparing money as the 'general' commodity to money as the 'universal' commodity: 'Wie Gold und Silber als Geld ihrem Begriff nach die *allgemeine* Ware sind, so erhalten sie im Weltgeld die entsprechende Existenzform der *universellen* Ware' (our emphasis).]

[246] [In Russian *vsemirnogo* was used here twice (before also in 'world money'), so it read simpler than in German (*Welt*geld – *universellen* Ware) and English.]

[247] [A translation of the similar expression, 'Stoffwechsel der gesellschaftlichen Arbeit', reads: 'C-M-C As far as concerns its material content, the movement is C-C, the exchange of one commodity for another, the *metabolic interaction of social labour* ...' (Marx 1976b, p. 200).]

[248][On the 'Particular equivalent' see Marx 1976b, p. 156.]

[249][The Russian text here had a printing error so that the last part of this sentence was combined with the first part of the previous sentence. We follow as correct the Russian translation of 'sphere' in the singular.]

[250] Marx 1987, p. 383. [In the last sentence we follow the Russian translation as correct, with 'it' meaning the *Gestalt* of 'the commodities', and not 'the exhange-value', otherwise an apparent duplication occurs: *Gestalt* of the exchange-value. Thereby we also indicate Marx's repetition of the word *Gestalt* from the second sentence in the quoted paragraph. He repeats it also a few lines later with '*der Ware in ihrer verzauberten Gestalt*', 'the commodity in its ensorcelled impersonation'.
In *Capital* Marx rephrases his paragraph: 'In world trade, commodities develop [in French: *se realise*] their value universally. [The English edition 1887, p. 124, Marx 1990, MEGA II.9, rendered this sentence as: 'In the trade between the markets of the world, the value of commodities *is expressed so as to be universally recognised*'.] Their independent value-form (*Wertgestalt*; *leur figure valeur*) thus confronts them here too as world money. It is in the world market that money first functions to its full extent as the commodity whose natural form is also the directly social form of realization (*Verwirklichungsform*) of human labour in the abstract. Its mode of existence (*Daseinsweise*) becomes adequate to its concept [*Begriff*]' (Marx 1976b, pp. 240–41; Marx 1983b, p. 98; Marx 1872, p. 59). The *Gestalt* (impersonation, form) or *Begriff* (concept, theory)

> As far as obtaining the money material (gold and silver) from its source of production is concerned, this is reducible to direct commodity exchange, exchange of gold or silver as a commodity against other commodities, and is thus just as much an aspect of commodity exchange as obtaining iron or other metals. As far as the movement of precious metals on the world market is concerned, however (we ignore here such movements as express the transfer of loan capital, a transfer which also takes place in the form of commodity capital), this is as completely determined by international commodity exchange as the movement of money as a means of domestic purchase and payment is determined by domestic commodity exchange. The export and import of precious metals from one national sphere of circulation to another, in as much as this is caused simply by the devaluation of a national currency, or by bi-metallism, lies outside monetary circulation proper and is merely a correction of aberrations brought about by arbitrary state decrees.[251]

These statements allow the establishment of a general position concerning money circulation in international exchange. Gold in world trade has *two lines of movement* (not counting the movement of gold under the influence of fluctuations of exchange courses). In the location of extraction, it exchanges directly for other commodities. Hereafter it is distributed to various countries and participates in international trade as ordinary means of circulation, that is, as the result of the movement of commodities. In this second movement gold participates already with *previously given prices*, because before direct exchange of

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of money mean something different than the *Dasein* (existence) of money. And money's 'mode' of existence (or function) here is world money, but that is not money's only mode of existence.
Marx calls money in its physical presence in actual payment, as opposed to its nominal function as measure of value, the 'independent *existence* (*Dasein*) of exchange-value, the *absolute* commodity' (Marx 1976b, p. 235, our correction, the English translation here wrongly had '*universal* commodity'). When 'actual payments have to be made, money enters circulation not as a transient means of circulation, but as the static existence (*ruhende Dasein*) of the general (*allgemeinen*) equivalent, as the absolute commodity' (Marx 1987, p. 378, our correction). What can be said, is that money as universal commodity (as world money) functions more often (than in other functions) as the absolute commodity: 'Its predominant function is as means of payment in the settling of international balances' (Marx 1976b, p. 242). The money brings the process 'to an end by emerging independently, as the absolute form of existence (*absolutes Dasein*) of exchange-value, in other words the *general* (*allgemeine*) commodity' (Marx 1976b, p. 234, our correction, and we could even drop 'form' inbetween 'absolute existence'). It seems here once, for this point that Marx interchangeably uses 'general commodity' and 'absolute commodity', but of course not 'universal'.
One time Marx did translate James Steuart's English phrase 'universal equivalent' into German as '*allgemeines* Äquivalent' (general equivalent), so some might find the distinction of 'universal' and 'general' a bit pedantic. Steuart elsewhere also used 'universal' interchangeably with 'general': 'So soon as money is introduced into a country it becomes, as we have said above, an *universal object of want* to all the inhabitants'; the line of Steuart above: '... introduce the use of money, which I represent as the *general object of want*'.]
[251] Marx 1981, pp. 436–37.

gold for a commodity there already exists a price of the commodity and in the price of commodities the value of gold is presented. Where is the original value of gold established? At its source where the quantitative proportion first is set of the direct exchange of commodities for gold, which in this case is not yet money, but a simple commodity like any other metal. Countries that do not have their own sources of production of gold can only through these proportions set its value, which will not be equal to the labour time spent in mining gold, but to the labour time spent on the production of the commodities exchanged for gold at its source. Since these commodities are already found with a determined value relation to the rest of the commodities, circulating on the world market, gold thereby becomes a general measure [*izmeritelem*] and enters further trade with a definite value, of a determined initial proportion, in which it is exchanged for commodities. The problem lies in the establishment of this initial proportion. If gold is mined only in country A and nowhere else, if the exchanged for it commodity is produced in country B and again nowhere else, then it is obvious that the comparative production costs of one and the other cannot be established, because it is unknown, what the relation of labour time A and B is. The latter can be set only from the very proportion of exchange, which, obviously, is determined not by equality of labour time, but by other conditions: namely, by the reciprocal demand for gold and commodity. If country A has the ability to produce along with gold also other commodities, then the correlating time of production of one and the other gives already a foothold for the establishment of those limits below which cannot fall the awarded commodity value of gold.[252] In the opposite case [namely with a proportion below the limits] it refrains from exchange and itself begins to produce the commodities necessary for itself.[253] An upper limit on the foundation of these data cannot be established. It depends entirely on the intensity of demand for gold from the side of other nations. But competition of several gold-mining countries establishes also an upper limit.[254]

In any case it is clear that the labour time actually spent on gold mining in a given country must be transformed into world socially necessary [labour] time, determined by the conditions of gold production in all countries, but[255] it can become a general measure [*izmeritelem*] and representative of world labour only by entering into contact with the

[252] [This ability would be absent in new colonies without any industry of their own, for example perhaps Australia in the 1850s.]

[253] [Some of the miners could leave the gold branch and start producing mining equipment and other commodities in demand by gold miners.]

[254] [So with the option of selling to miners either in California or in Australia, merchants would have been able to obtain a fair amount of gold for their merchandise (and not dump their commodities too much below their value). That is, gold would not acquire a too great value in the exchange proportion.]

[255] [The Russian word *a* can also mean 'and'.]

diverse world of commodities, with the result that it begins to represent not its own 'gold' labour time, but labour time *in general*, deprived of any concretely shaped particular spheres of production. Here occurs not only a qualitative but also a quantitative transformation: the same sum of gold begins to represent an *other* amount of world labour time, not that which was directly expended on it.

Thus, one can establish at least *four different meanings* of the expression: gold is the incarnation of world labour:

1. A pound of gold represents the labour time *actually* spent on its extraction under average technical conditions in a *given country*, that is, 'national' socially necessary labour time (let us recall that gold belongs to the category of commodities whose value is determined by the worst conditions of production.[256] But this does not mean – under the worst mining technology. The technology must meet general requirements).

2. A pound of gold itself represents the *world* labour time *actually* spent on its extraction, that is, world socially necessary labour time expended in all countries where gold in general can be mined. It is completely obvious that these two figures – national and the world labour time – *do not coincide*.

3. A pound of gold itself represents a determined amount of *world labour time in general*, without regard to the areas where it is expended. It itself is this general labour time also in those countries which do not produce gold at all. Again, it is completely obvious that this last magnitude does not imperatively have to coincide with the magnitude appearing in point number two. Let us suppose that world socially necessary labour time for the extraction of one pound of gold is *a month of labour*. But if for some or other reason a proportion is established in the market in which a pound of gold at an average is exchanged for commodities worth twenty days of labour, it is evident that in world trade gold, as the general equivalent [*ekvivalent*], will represent the second rather than the first magnitude. True, such a variation would mean that the exchange of commodities for gold in world trade does not happen on equivalent principles. However, such non-equivalence in relation to gold is quite possible, although not for the reason that annual gold production, in relation to which socially necessary labour time is set, constitutes a smaller magnitude compared to the world stock of gold mined in earlier ages. It is understood that an indefinitely prolonged time of this non-equivalence cannot exist. If the annual production of gold is compared to the stock, then the production of ten years for example already is impressive enough to have a

[256] [This was Ricardo's position, not Marx's. Marx followed Smith, see Kautsky 1913 and Finn-Enotaevsky (translated in Gaido and Rodman, *Marxist essays on money*, draft) for a critique.]

corresponding impact, not to mention that proportions of trade may experience the strongest fluctuations, even under small changes of the amounts of commodities, entering into trade. In any case, it was important for us to note that the magnitude of world labour time, taken in the sense of the second and third point, might not coincide.

4. Finally, the same pound of gold, in contact with the commodity world in each country, will again[257] itself represent *different* amounts of national labour time for the reasons stated above.[258] It can itself represent in the United States ten days of labour, in England – twenty, in China – hundred, and so on, entirely apart from national differences in commodity prices and from the fluctuation of exchange courses, but solely by virtue of differences in productivity of national labour.

3. On the mobility and the transfer of productive forces

The mobility of capital and labour, in general the productive forces in the world economy, as was said earlier,[259] is a function of the development of these productive forces, a function of the development of capitalism. One must distinguish between mobility in the *technical* and the *economic* sense. Means of production or labour forces can be very easily transferred in space, but if there are no economic incentives to transfer them, they will remain in place, will be 'immobile'. On the other hand, the means of production may in their material form prove little mobile, but if economic considerations make their movement profitable, then technical obstacles recede into the background. The choice of place, of '*Standort*' [location] in different historical ages is determined by different circumstances, of a technical as well as of an economic order. In the epoch of capitalism the 'rational location' (Sombart's terminology) dominates, which focuses either on *qualitative* advantages of a given place before others, or on advantages in the economic sense of production costs.[260] The latter orientation is the most universal under capitalism. It was subjected to detailed investigation in the well-known works of Alfred Weber and his school about industrial location. In it is expressed most clearly the domination of economic over technical principles.

But it would be wrong to assert that the development of capitalism in all its aspects contributes to the growth of the mobility of productive forces. It raises also new obstacles to

[257] [From this word 'again' it is evident that for Dashkovsky the 'national value' of gold has two distinct meanings.]
[258] [In the beginning of this section.]
[259] [See chapter one, against Maslov.]
[260] See Sombart 1924, p. 901 [chapter fifty-four].

such movement, which, however, are unable to prevent the deployment of the main trends. So, the concentration of production, the increasing organic composition of capital, [and] the growth of the relative mass of fixed capital compared with circulating, and so on – all this seems to increase the material mass of productive forces, which is attached to place and possesses a very large inertia. In particular for rail transport, that is, exactly for that branch of the economy whose whole purpose consists in *movement*, the huge influence of fixed capital is characteristic, making absolutely impossible its transfer from place to place. One can even establish such a law: the less mobile the capital of transport [as a branch] is, the greater is the mobility it imparts to the national-economic whole.[261] Now then, does not this growth of fixed capital erect such obstacles, which, despite the convergence of the levels of capitalist development in different countries, still impede the international transfer of productive forces, giving thereby a special colour to international exchange? This question must be answered in the negative. First, the large inertia of fixed capital makes it immobile not only in the international, but also in the domestic economy. There exists no difference between the movement of capitals from one branch[262] to another within a country and their movement from one country to another – from the viewpoint of bulkiness of the object of

[261] Another transportation paradox: the more perfect the means of communication, the cheaper the cost of transport, the greater degree the economy is exempt from territorial boundaries, but at the same time and for this same reason the meaning increases of any local feature, any, although insignificant, local advantage and the territorial division of labour deepens all the more. The ideal state of transport does not lead to the fact that all will produce everywhere (this 'ubiquity' describes precisely the era of extreme backwardness of means of transfer), but, on the contrary, to the fact that every particular kind of production will be concentrated in special to it favourable places. Industrial differentiation of individual regions and territories increases with the development of transport, although this enhancement derives not only of the transport conditions, as such, but also of the fact of the transition from the 'ubiquitous' raw materials and fabrics of production to localised raw materials and fabrics.

[262] [It seems Dashkovsky should have put here different *regions* (instead of branches) within a country. Movement of machinery between different branches is not the same as its mere movement to a different location. Inter-branch redeployment of some machinery is possible, but a lot can operate only within its specific branch, so even conceding the existence of perfect (international) mobility of machinery (within one branch) would not yet establish its inter-branch mobility. Dashkovsky will say that movement of capital does not entail the conservation of old machinery (so then no movement of machinery, but its abandonment).
If a tractor producer sells to a foreign farmer, this does not mean capital leaves the tractor branch and moves to the agricultural branch, or, vice versa, if herewith the tractor branch catches surplus-value from the farmer (supposing for the existence of prices of production the mere sale of products suffices), that then capital has moved from agriculture to the tractor branch. If a tractor-builder were to shut down the plant and invest in the creation of a new farm abroad there is international inter-branch movement of capital.
We can speak of capital export if, while creating a new farm abroad, the plant continued its existence under the same control, but then there is no inter-branch movement in the sense of capital leaving (flowing out of) the tractor branch (and capital for the farm could for example have been raised from that foreign capital market itself).
We distinguish: (international) intra-branch mobility (of machinery); its inter-branch mobility; the movement of machinery versus that of capital (abandonment of old, creation of new machinery); capital export (usually intra-branch, if it is about machinery relocation instead of abandonment, with investment maintained in domestic plant so then no capital really 'leaves' (or is deduced), though machinery can).
So capital export need not involve physical mobility. And physical mobility not need involve capital export, a point which maybe further explains Dashkovsky's statement that makes in the first line of the next section (four).]

transfer. Secondly, the mere fact of an increasing share of fixed capital in the structure of existing productive means is not yet indicative of an increasing inertia of the productive forces of society. After all, transferred must *not* be those means of production which already appear in the form of factories, railways, and so on, but *newly* produced means of production. The movement of capital is not a movement of the completed enterprises [themselves], but a movement of the products of the production of these enterprises, having a form, suitable for the organisation of new production. Thus, the question boils down to whether the mass of fixed capital increases by comparison with the annual volume of production or not. An exaggeration of the role of this fixed portion of capital has led economists of an earlier capitalist age to the conclusion that capital of a country in general cannot be exported independently from the movement of people. Here is what in his time, for example, Hodgskin wrote.

> It must be quite plain that the greater part of the commodities constituting the capital of a country, cannot, be removed. The most common instruments and tools are useless without the skillful hands, and many of them are connected with fixed spots or buildings, nearly as immovable as the soil itself. They may be destroyed – not carried away. The improvements of the soil, the draining and manuring of it have already been made. Other labourers may make them useless, but neither they nor the benefit that confer on us, can be transported to France or America. Bridges, roads, and canals, may be neglected or suffered to fall into ruin, or they may be broken up; but no one will be at the trouble of shipping the materials off to Spain or to Brazile [...] Except the acquired and useful abilities of the labourers of a society, and what they can carry with them – for there are some instruments, such as ships, easily transportable – no part of the capital of a country can be either driven or sent away.[263]

The considerations of Hodgskin bear the stamp of his era – the era when the export of capital had not yet acquired decisive significance in the economy of the advanced countries. His error is completely obvious. First of all, he confuses the material form of fixed capital with its value. The first, of course, cannot be exported from the country (equally like the movement

[263] Hodgskin 1827, pp. 252–53. ['[B]ut unless men are, capital never is either forced or sent abroad. To talk of sending away roads, bridges, canals, and cultivated fields, is a striking absurdity, and yet we hear perpetually a sort of cuckoo song among members of Parliament, who are capitalists themselves, or leagued with capitalists, about the danger of *forcing these things* under the name of *capital* out of the country. In fact, to prevent them from being driven away, as it is said, laws agains the combination of workmen have been made in this country, quite as atrocious in principle, as the slave codes of the West Indies' (Hodgskin 1827, p. 253).]

of any significant mass inside the country), but if the value of fixed capital is not repaid in the form of regular expenditure for the conservation of it in good condition, if the depreciation funds take a *different* material form, more transportable and easily exportable abroad, then this in essence also is export of capital abroad, moreover precisely that capital which seemed stuck at home and 'intertwined' with the native soil.

But, in addition, Hodgskin does not take into account the net production, which a country produces year by year and which consists to a greater degree of means of production, the greater the dimensions are of the fixed capital, figuring in the form of the finished productive apparatus of the country. And these means of production stick already with nothing to the ground, and their movement is much more due to economic than to physical laws. This net production in the course of a short period provides material values that exceed the whole vast mechanism of production accumulated by society from past centuries. Apropos this, Marx, evidently, with full sympathy quotes the following excerpt from Thompson:

> It is little thought, by most persons not at all suspected, how very small a proportion, either in extent or influence, the actual accumulations of society bear to human productive powers [forces], even to the ordinary consumption of a few years of a single generation. The reason is obvious; but the effect very pernicious. The wealth that is annually consumed, disappearing with its consumption, is seen but for a moment, and makes no impression but during the act of enjoyment or use. But that part of wealth which is of slow consumption, furniture, machinery, buildings, from childhood to old age stand out before the eye, the durable monuments of human exertion. By means of the possession of this fixed, permanent, or slowly consumed, part of national wealth, of the land and materials to work upon, the tools to work with, the houses to shelter whilst working, the holders of these articles command for their own benefit the yearly productive powers of all the really efficient productive labourers of society, though these articles may bear ever so small a proportion to the recurring products of that labour.[264]

Of course, at the time of Thompson, these 'durable monuments of human exertion' were many times smaller than in our time. And indeed, also the annually created new values were insignificant compared with the current dimension. The ratio of annual production to

[264] Marx 1978, p. 397 [citing William Thompson, *An Inquiry into the Principles of the Distribution of Wealth*, London, 1850].

accumulated capital in our time is at the least not lower than a century or half ago, though the exact statistics in this area are not available for past periods. Annual production of the most important countries in our time makes up fifeen to twenty per cent relative to the value of the national property of each country. But in the sum of this property goes land. Excluding land, annual production makes up relative to property not less than thirty-five to forty-five per cent. If we take the ratio of these products *only to fixed capital*, then it in any case will not be a lower percentage. In other words: annual production amounts to a magnitude equal in value of the whole productive apparatus of society. Just in industry, for example, products exceed the value of fixed capital on average by 1.5–1.6 times. This is the ratio – in value. The ratio in physical volumes is even more, because value of fixed capital is calculated under old rates of labour productivity, which progresses each year.[265] How quickly 'monuments of human exertion' lose significance and with what an incredible pace of change the tempo of development of productive forces alters the economic rapport of wealthy countries, is shown by the fact of the change of roles of America and Europe in the world economy, which occurred in the length of some one and a half to two decades.

Similar rearrangements occurred between the most important countries also before the war. So, according to Liefmann's testimony, 'the increase of wealth in the last decade before the war happened in Germany faster than those nations that had previously had a significant advantage in wealth – in England, France, Holland, and the same – within the limits of their productive capacity – is true in relation to Italy, Switzerland, Scandinavian countries'.[266]

We will not dwell here on the ground of these rearrangements, – to this subject we will return, – but confine ourselves here to an observation of facts. The wealth of modern nations – from the viewpoint of its material volume –, in Marx's expression – 'ain't got no date'.[267] 'It is always in transitory existence'.[268] But thence also the astonishing growth of its mobility, despite the heaviness and bulkiness of its modern form. The progress of transport overcomes any weight and form, and makes it possible to move whole 'factories', like 'toys for a Christmas tree'.[269] The cheapened traffic in much greater degree is favourable to the

[265] Contemporary economists, like, for example, Schumpeter use this insignificant relative mass of existing fixed means compared to the mass of products in order to prove that the capitalist form of economy has its basis not at all in the ownership of the means of production, but in the personal creativity of the capitalist, organising the production (See Schumpeter 1912, pp. 530 and following [first edition, chapter seven]. Schumpeter prudently leaves the fact out of sight that the basis of this praised capitalist initiative forms precisely the production apparatus, which is owned by the capitalist.

[266] Lieffmann 1925, p. 23. In all this, of course, the duration of economic domination of these or other countries on the world market is much greater than the period of domination of advanced enterprises inside a country.

[267] [Grammatically incorrect expression of Lichnowksy, used by Marx 1976b, p. 739.]

[268] [Unreferenced quote, evidently from Marx. Literal translation: 'It is always since yesterday' (*Ono vsegda so vcheraschnego dnja*).]

[269] [Parvus' expression, cited in Dashkovsky's first article.]

movement of means of production, than finished commodities. Thus, for example, transportation of raw materials with the advent of railways is facilitated to a greater degree than the transport of fabricates.[270]

Generally speaking, if one takes the concept of 'capital' in its technical sense (which, in terms of the problem of *material transfer* is quite allowable), – then for the contemporary stage in the development of international relations the contrast of *commodity circulation* and *capital circulation* appears conditional in the highest degree. What is the kind of trade of commodities, if the majority of these commodities are classified in the category of *means of production*? It is the *reallocation of productive forces*. If England exports machines to India, then even in the case when the value of these machines is fully bought with money or commodities, that is even in the case when in the *economic* sense England does not export capital to India, machines all the same are moved to a new place and with them part of the productive forces are moved to a foreign country. It promotes industrialisation of the backward country regardless of whether it is sold with credit or paid out-of-pocket, of whether its production is organised with the help of the enterpreneurial capitalist who lives in England or of the native industrialist. All these differences become, it is understood, of enormous importance from other points of view that we here leave aside. From the point of view which specifically interests us here – the mobility, the transfer of means of production, – they are inessential.

Not all commodity export is capital export. But all capital export must exist in the form of *commodity circulation*; even when the exported capital figures in the form of *money*, it is *imported* in the country of destination in the form of *commodities*, purchased at different locations of the world market, decreasing in corresponding magnitude the commodity imports of those countries, which export capital. Every capital, imported to any sort of country, is beholden in its origin to *commodity* trade.[271] Therefore, it is entirely absurd to imagine, as was sometimes done by the classics, the interaction between two countries as a relation between two with each other *trading* 'economic bodies' ('trading body', to use the terminology of Jevons), whose *production* relations do not undergo change. Where there exists trade, where objects of trade include among others means of production, in particular instruments of production, there will inevitably occur also transfer of productive forces, even when no migration of capital occurs at all.

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[270] See Sax 1879.

[271] See Sartorius von Waltershausen 1907, p. 15. [In our intro to chapter eleven, we point out that in foreign direct investment, some part of money goes to the purchase of wage labour.]

But foreign trade inevitably generates also capital export in the true sense of the word. Between one and the other form of economic relation there exist a close interaction. Schilder showed with the example of England, with what regularity there the rise and fall of commodity export alternates with the fall and rise of capital export. Any hitch in the sale of commodities abroad causes a growth of capital export, in other words, increases the mass of commodities sold with credit, either as monetary loans provided to foreign countries with the help of which they acquire British commodities, or, finally, the exportation abroad of equipment, and so on, for the direct organisation of industrial enterprises of British entrepreneurs. Purchase of securities is itself an outwardly similar economic phenomenon. In general 'the interdependence of export trade and invested capital abroad constitutes a regulatory mechanism that works like the mechanism based on the interdependence of bill markets and foreign trade, though also slower'.[272] Otto Bauer notes another form of interdependence between trade of commodities and capital.

> Capitalist economic policy, – he writes, – strives to acquire spheres of investment for capital and markets for its commodities. We can now see that these are not separate tasks, but in fact *one and the same task*. If I open a sphere of investment to unproductive capital [...] I bring about commodity sales. For it is not unproductive monetary capital, but productive capital, which purchases goods. [...] And inversely, if I open a new market for commodities, the turnover time of capital is shortened, profits increase, an increased demand emerges for disposable capital, and unproductive capital flows into the sphere of production. If I open up a new market for commodities, I also create new spheres of investment for capital.[273]

We left aside here the question about what kind of impact on capital export, and so on, the *different rate of profit* in different countries has, – that is, the most influential reason of capital export. To this theme we come back later. But it is all the more conclusive that, even apart from the rate of profit, we inevitable arrive to the conclusion *about the necessity of the turn of commodity trade into migration of capitals, about the transfer of productive forces between countries as a result of simple commodity-exchange between them*.[274] The fantasy about countries, whose productive forces are attached to location, and which communicate

[272] Schilder 1915, p. 377.
[273] Bauer 2000, pp. 372–73.
[274] [Migration of *capitals* here in a 'technical sense' as Dashkovsky put it, so still not dealing with capitalism specifically.]

with each other only through the trade of [consumer] commodities, has no sense even as a fantasy, because the lack of an inner logic.

Transfer of productive forces includes itself not only the migration of idle capital, but also of people.[275] It would be, however, a gross mistake to think that between export of capital and people there must exist an exact correspondence, as Hodgskin thought. This is unthinkable already for the simple reason that things and people possess completely different transportability. Differences of language, culture, political institution, and so on, have especially relation to *people, but not to things*. That is why there is such at first sight paradoxical phenomenon that 'a man is of all sorts of luggage the most difficult to be transported',[276] although he at the same time possesses the greatest mobility, as living organism. In relation to capitalists the case is simpler. Export of capital, in the sense, which is usually given to it, is such an exportation of capital, in which the capitalist himself remains in his own homeland. If together with capital also the capitalist moves, then this capital is entirely lost to the country where he departs, and then usually is spoken already not about export, but the relocation of capital. Although between these two forms the difference is not so great in essence as may appear, although the flexible system of asset capitalism has created a whole series of gradations between them, nevertheless this distinction suggests that the capitalists, exporting capital, usually do not follow it on its heels. This is particularly characteristic, inasmuch as the case is about pre-war times – for the French and English forms of export. The Germans for the most part accompanied their capital in its wanderings. As for the labour forces, which are an integral part of the productive forces, then also here not any correspondence between export of capital and emigration of workers can be established. For the contemporary [situation] one can establish sooner the *opposite* tendency. Countries, exporting capital, together with this *import* labour forces (the United States is the most prominent example). And, conversely, labour forces emigrate from countries whereinto foreign capital pours (heavily populated countries, India, China, and so on, in pre-war time Russia and in general the countries of Eastern Europe were consumers of foreign capital and together with this suppliers of labour forces on the world market). Worker emigration from the advanced industrial countries, exporting capital, took place only in the course of the first three quarters of the nineteenth century, and since then sharply declined. But even then, there did not exist any proportion between the import of workers

[275] [Perhaps this includes involuntary migration of people.]

[276] Smith 1909, p. 76. [As evidence for the idea that the lowest existing wage was sufficient to maintain a family, Adam Smith offered that despite wage differences within the UK, those in parishes with lowest wages did not feel the need to (internally) relocate.]

and the export of capital. 'The [English] additional capital, – Marx writes, – annually transported abroad to be put out at interest is a much greater proportion to the annual accumulation than the yearly emigration is to the yearly increase of population. [...] The greater part of the yearly accruing surplus product, which is embezzled from the English workers without any equivalent being given in return, is thus used as capital, not in England, but in foreign countries'.[277]

We noted that for the contemporary period most characteristic is the movement of capital and of labour force not in one and the same, but in opposite directions. Capital seeks the places of conglomeration of labour force, labour force seeks places of conglomeration of capital. The labour force goes to the place from where capital is exported, because, despite the outflow of capital, in the country of export the manpower lacks to set in motion the remaining capital. Capital goes to the place from where labour force is emigrating, because, despite that emigration, in the country there remains a huge surplus of workers, for who the means of production lack, that is, capital. Of course, here is sketched only a scheme that in reality is recasted under the influence of a variety of circumstances. Thus, for example, export of capital to sparsely-populated countries (Canada, Australia, and so on) is accompanied simultaneously also by labour emigration to these countries.

On the other hand, excessive abundance in the country of labour forces and the resulting extreme cheapness of workers may become an obstacle to import into this country of capital in the form of technical means of modern large industry. Machines, applied, for example, in European and American industry, can by far not always enter in China or India. The cheapness of workers makes the mechanisation of production unprofitable for capitalists. In such cases, sooner is spoken of import of capitalism than of import of capital into these backward countries. The function of the bourgeoisie of the dominating countries consists therein, that it organises capitalist production in colonies on the basis of those means of production that it finds there in ready form, and not with the help of productive forces of the more developed industrial countries. This happens not only with machines. The same reason prevents, for example, the penetration of artificial fertilizers in Chinese agriculture, which with much more success uses human excrement, though at the same time also absorbs with this a countless amount of human labour.[278]

Within this counter-opposing movement the means of production (capital) exhibit much greater mobility than labour forces, which in a stronger degree are localised. Whence

[277] Marx 1976b, p. 761.
[278] See Aereboe 1927, p. 20.

emerges the so-called 'worker orientation' in modern industry in the terminology of Alfred Weber, that is, the tendency of production to concentrate in places of conglomeration of labour forces, the tendency to overcome the raw material-, as well as the fuel and consumer orientation. Thus, the considerations of the classical school have much more foundation in relation to *labour* than to *capital* (which was also noted by Edgeworth).[279]

There is no doubt that also the mobility of labour force is dependent on the level of cultural and economic development. But here it is much more difficult to reveal the basic tendency. In the analysis of the conditions of capital mobility we have shown that the development of capitalism, destroying some obstacles of movement, simultaneously erects other obstacles, wherewith the first tendency invariably prevails. As for labour forces, then here such undisputed conclusions cannot be obtained. Inasmuch as labour force experiences attraction to the side of industrial centres, the strength of attraction should be proportional to the magnitude of the centres of attraction. Concentration and centralisation of industry should therefore cause a more animated movement of workers from the periphery – the inflow from village to city, from agrarian to industrial countries is a clear illustration of this pattern. In the same direction operates the improvement of means of transport, the improvement of forms of communication (telegraph, telephone, radio, and so on), creating a reputed 'unification of the labour markets' like the unification of the market of capitals or bill markets, although in incomparably lesser degree, inasmuch as the value of labour forces yields a far less degree of unification and leveling than the rate of profit or the bill market. Finally, the progressive automation and mechanisation of production, accompanied by deskilling of many professions, likewise facilitates the movement of labour forces from one branch to another on the international, as well as national scale. Here a curious analogy is worth noting. The degree of qualification of the worker is fully analogous to the relative mass of fixed capital in the structure of means of production. To the extent of their growth, both their inertia increases, restricting movement. But whereas fixed capital has the tendency of growing with the development of capitalism, the qualification of the workers *en masse* [taken as a whole] finds the reverse tendency toward a *descent*, precisely by virtue of the increasing relative mass of fixed capital in production. One and the same reason, reducing the mobility of means of production, increases the mobility of labour. (Automation creates, true, a demand in highly skilled labour of technicians, mechanics, and so on, but the latter constitute a relatively small percentage in the total mass of unskilled labour.) Such, in most

[279] ['Let it be granted that capital and perhaps business power is free to flow to all parts of the earth. Yet labour cannot be conceived as flowing so freely' (Edgeworth 1894, p. 35).]

general terms, are the reasons which contribute to the growth of labour force mobility in modern capitalist economy.[280]

But there is a tendency, operating in the opposite direction. The tendency is so perceptible that some authoritative bourgeois researchers come to the conclusion about an *increasing settlement* [*sedentariness*] *of humanity* with the growth of capitalism. Here is what, for example, Bücher says:

> To all that can be adduced from experience in support of the statement that in the course of history mankind has been ever growing more settled, there comes a general consideration of a twofold nature. In the first place the extent of fixed capital grows with advancing culture; the producer becomes stationary with his means of production. The itinerant smith of the southern Slav countries and the Westphalian ironworks, the pack-horses of the Middle Ages and the great warehouses of our cities, the Thespian carts and the resident theatre mark the starting and the terminal points of this evolution. In the second place the modern machinery of transportation has in a far higher degree facilitated the transport of goods than of persons. The distribution of labour determined by locality thereby attains greater importance than the natural distribution of the means of production; the latter in many cases draws the former after it, where previously the reverse occurred.[281]

Further, he points out that 'all modern industrial development tends in the direction of a producing a permanent labouring class, which through the custom of early marriage is already much less mobile than the journeymen of the early handicrafts, and which in the future will doubtless be as firmly attached to the factory as were the servile labourers of the medieval manor to the glebe'.[282]

Bücher's considerations relate to the issue of internal displacement of the workforce, but they also have a general significance. To what extent can they be accepted? Inasmuch as we are talking about the factual side of the case, Bücher himself brings figures which refute his

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[280] How much the movement of the labour force is subject to the impact of economic factors, shows the pre-war data on immigration to the United States. Here is what the researcher of this issue Hourwich says: 'Comparative statistics of industry and population in the United States show, however, that immigration merely follows opportunities for employment. In times of business expansion immigrants enter in increasing numbers; in times of business depression their numbers decline. The immigration movement is further balanced by emigration from the United States. As a rule, the same causes which retard immigration also accelerate the return movement from this country' (Hourwich 1912, p. 3).

[281] Bücher 1901, pp. 347–48.

[282] Bücher 1901, p. 382.

constructed conception. Thus, for example, according to his information, 'the number of inhabitants of Europe, owing to their place of domicile not to birth, but to migration, reaches far over one hundred of millions',[283] – this was the end of the last century. On the other hand, he himself emphasises the strong movement of labour forces from the countryside into the city, characteristic precisely for the capitalist era. But this movement, he believes to be the result of the fact that we are still 'in the transition period in which the yet uncompleted transformation of the town and territorial economic structure into a national one involves a continuous displacement of the boundaries of division of labour and of the centres of the various branches of production, and consequently displacements of the labouring population'. Another reason is the fact that 'the majority of large industries have not yet attained their growth, and because it is necessary for them, as long as they extend their works, to meet demand for labourers by drawing further upon the surplus population of rural districts'.[284] It is easy to recognise the affinity of these arguments with the famous theory of Bücher about the stages of national-economic development: the closed (domestic) economy, the urban, the national economy. Strange sounds the claim of Bücher that we (in Germany) 'have not ended the process of turning the urban [economy] into the national economy'. He 'did not notice' that the German national-economy long ago managed to become part of the world economy.

If one considers the movement of labour forces from countryside to city [to be] a 'transitory' phenomenon, then, from this viewpoint capitalism too is a transition to another system, and to it, perhaps, an end will come sooner, than in a world scale the transfer of workers from the countryside into the city [will end]. Unable to withstand criticism likewise is Bücher's statement that growth of fixed capital causes immobility of manufacturers. We substantiated above the direct contrary conclusion. Growth of fixed capital is an increase of the immobility of *material elements* of this capital, but not of people, not even to say that the capital produced with the help of this fixed capital possesses full mobility also in our time. Of all Bücher's considerations true is only, – and we already noted this, – that the development of means of transport facilitates more the transport of commodities than of people, and therefore means of production increasingly are moved in the direction of the labour force, rather than vice versa. This is the actual real reason of the increasing 'sedentariness' of the labour force. It is only necessary to note that the greater ease of transport of commodities, than people, follows not so much from physical but economic conditions. Since the rate of

[283] Bücher 1901, p. 355.
[284] Bücher 1901, pp. 382–83.

profit is conditioned by the rate of surplus value, and the latter – other things being equal – is determined by the height of wages, which is the lowest in areas of dense working population, then it is understandable why capital 'easier' moves towards the direction of the working force, than the contrary, the transfer of workers to the means of production. But this relates already to the discourse about the rate of profit.

There is no doubt also that the population, *already concentrated* in large cities and in industrial centres, shows bigger inertia than a population found in the phase of movement from the countryside into the city, or from small towns to large towns. At least this is the case in the epoch of the ascending line of development of capitalism. Contemporary capitalist Europe, carrying a heavy load of a few million 'stabilised'[285] unemployed, for whom there is no place in industrial economy, presents a different picture. The reason for the greater 'sedentariness' of the urban population arises not from the reasons, about which Bücher speaks, not from the growth of fixed capital, and so on, but from the simple fact that the difference in living conditions between large cities in one and the same country or in different countries is smaller than the difference in living conditions of the countryside and the city. Be that as it may, one can observe here a phenomenon directly contrary to what the classical school stated: the closer the different countries fit together in the level of culture, material conditions of life, and so on, – the weaker the tendency towards transfer of labour between them. The migration of labour between Germany, England, France, is much weaker than the migration of workers from Eastern to Western Europe, from Asia to the United States, and so on).[286]

In essence, the same can be said also about the transfer of capital. The traction towards movement is weaker, the closer the rates of profit go to each other in different places, that is, the more homogeneous their economic structure. We arrived, thus, to a very paradoxical conclusion: the mobility of capital and labour decreases to the degree of the development of conditions, facilitating the movement of means of transport, communication, the communion of the cultural, political and social system, and so on. The paradox disappears,

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[285] [Bourgeois economists in the 1920s spoke of 'stabilisation' (after the first world war).]

[286] In addition to the difference in standard of living between rural and urban, and also many other reasons, a significant role plays likewise the large steadiness of life in cities (and in industrialised countries), compared with the countryside (and agrarian countries). In previous times 'with undeveloped means of communication, the urban population suffered from severe local oscillation in food prices due to fluctuation of crops, while the rural population experienced relatively weak fluctuations in their income: with crop failures prices rose, with yields they dropped, and whence the weak growth of the urban population [...]

'With the improvement of means of transport the converse relationship between village and city is established. Independence from local fluctuations in the prices of agricultural products provides the urban population with a stable standard of living, while the welfare of the rural population becomes dependent on the harvest' '(because prices are determined on the world market – *I.D.*) (Launhardt 1885, p. 213).

however, if we give words their true meaning. It is necessary to distinguish the *capacity for movement* and *actual movement*. Furthermore, movement itself can be *one-sided* and *multi-sided*. Capacity for movement is without a doubt higher the more developed the capitalist system is. But it is precisely for this reason, precisely thanks to the increasing ease of movement that the *incentives* to movement are reduced, inasmuch as the difference in conditions of life or return of capital investment cannot be significant. The smallest difference immediately is equalised by a corresponding transfer of means and forces, similar to how the slightest oscillation of the bill rate in any point of the world money market causes an immediate reaction of other points that eliminates this oscillation (bill or currency arbitrage). The high mobility of capital and labour in most developed capitalist countries is reflected in the point that this movement takes a *multi-sided* character, – a character of ceaseless *fluctuations*, the tides and ebbs, in which each country alternately stands now in the role of exporter, then in the role of importer of labour and capital. More precisely speaking, it simultaneously acts in both roles. The same thing, the same fluctuation occurs also between the larger industrial centres of one and the same country. A main role in these incessant movements of the productive forces plays the local oscillation of the conjuncture, not coinciding over time in different places or in different branches of industry. This constant '*change of motion*', the incessant changing direction of the alternating current gives the impression of a relative stability and immobility of the whole, because the counter oscillations mutually cancel each other.

An entirely different character carries the transfer occurring between countries and regions, representing *different* economic types. Here the transfer carries a strong *one-sided* character, occurs, usually, in one direction only. Capital as a general rule is exported in one direction only – from advanced industrial to backward countries, labour force as a general rule moves in the opposite direction (although it may take also the other direction, depending on concrete conditions). Such mobility is a *lower* form of mobility, since it is not multi-sided, it cannot be compared with the free movement of an autonomous organism, but with the *coercive* movement of different parts of a machine mechanism, whose direction once and for all is prescribed according to the construction of the device, the interrelation of the parts, and so on.[287]

[287][This page of Dashkovsky is referenced by Tsagalov: 'Although the export of capital is an extremely important point in establishing close ties between countries, it is by no means equal to what is called competition of capitals within the national economy. About the identity of these two phenomena and their same functional role one could only speak, if the identical form of movement of the phenomenon called competition with the export of capital had been proven. But precisely this identity has not been proven. Each of these phenomena has its own special logic of dynamics, as this was quite correctly noted by I. Dashkovsky. While capital competition has a mutual and multilateral character, capital export has a one-way form of movement'

All the confusion as to the conditions and forms of transfer of productive forces arises from the *mixture of different economic types of movement*. Meanwhile an exact delineation in this area was set by Marx with full clarity. He establishes three forms of the movement of capital (to which is ranked also labour force): 1. Transfer of capital within each *individual sphere* of production, as a result of which on the market is developed an ordinary market value of the products of this branch. Usually, this transfer occurs in the direction from less productive to more productive units. But if the transfer is limited only in this form, then in the different branches inevitably different rates of profit are set, due to differences in the organic composition of capital. [2.] Hence arises the second form of movement of capital between sectors in the direction of the higher rate of profit. The *second* [type of] movement happens as a general rule in reverse direction: from advanced to backward sectors. As a result of movement of the *second kind* on the market a *general rate of profit* is formed and market value is turned into *price of production*. 3. Finally, after the average rate of profit gained a quite stable quantitative shape and became an objective fact, the movement of capital from one sphere to another is determined by *fluctuations* of individual rates of profit around the average level, as a result of which movement itself takes an *oscillatory* character, in contrast to the *one-sidedness* of its direction in the period when the general rate of profit did not yet exist at all.

Each subsequent type of transfer supposes a higher requirement of mobility of capital and labour. Movement of the last type requires together with this a higher development of the capitalist mode of production than the movement of the first type.

> This constant equalization of ever-renewed inequalities ("oscillating movement" *I.D.*) is accomplished more quickly, (1) the more mobile capital is, i.e. the more easily it can be transferred from one sphere and one place to others;[288] (2) the more rapidly labour-power can be moved from one sphere to another and from one local [*lokalen*] point of production to another. The first of these conditions implies completely free trade within the society in question and the abolition of all monopolies other than natural ones, i.e. those arising from the capitalist mode of production itself. It also presupposes the development of the credit system, which concentrates together the inorganic mass of available social capital vis-à-vis the individual capitalist. It further

(Tsagolov 1930, p. 128).]

[288] [Marx's original (unedited by Engels): 'transferirbar von einer Sphäre in die andre; es ist damit zugleich die *örtliche* Mobilität eingeschlossen' (Marx 1992, p. 270). This mention of 'spacial mobility' is dropped in the English translation Marx 2015, pp. 305–6, so the old translation (based on Engels' edit) remains better ('place').]

> implies that the various spheres of production have been subordinated to capitalists. This last is already contained in the assumption that we are dealing with the transformation of values into prices of production for all spheres of production that are exploited in the capitalist manner; and yet this equalization comes up against major obstacles if several substantial spheres of production are pursued non-capitalistically (e.g. agriculture by small peasant farmers), these spheres being interposed between the capitalist enterprises and linked with them. A final precondition is a high population density. The second condition presupposes the abolition of all laws that prevent workers from moving from one sphere of production to another or from one local seat of production to any other. Indifference of the worker to the content of his work. Greatest possible reduction of work in all spheres of production to simple labour. Disappearance of all prejudices of trade and craft among the workers. Finally and especially, the subjection of the worker to the capitalist mode of production.[289]

All the listed conditions evolve along with the development of capitalism and in the highest degree exist in the most advanced industrial countries.[290]

The question on the forms and on the possibility of transferring values from one country to another acquired in recent years an actual interest in connection with German reparations, the Dawes Plan and the so-called 'transfer problem'.

In attempts to recover in the benefit of the Entente huge sums of reparations the victors encountered an 'unexpected' obstacle: the inability to *take* the billions which the German government agreed to *give*. Closely studying this question, the American economist Moulton characterises the created situation in the following way:

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[289] Marx 1981, p. 298.

[290] The growth of the mobility of capital and labour, going hand in hand with the weakening tendency towards actual movement between points, achieving the highest maturity of conditions of movement, represents one of the forms of the 'unity of opposites', which are generally characteristic of the capitalist system. On these assumptions, among others, are based numerous in our times attempts of the theoretical mathematical school of political economy to build a model of a *stationary* economy, possessing absolute mobility of all its elements and at the same time devoid of incentives to transfer, found in a state of *absolute equilibrium*. The so called 'maximum theorem' articulates this state of equilibrium as a state in which the greatest efficiency is achieved from the perspective of society as a whole, and which therefore lacks incentives to further change once the situation is reached. The achievement of a general equal rate of profit – in terms of capitalism –– also is the implementation of such a condition under which incentives disappear to further movements and so on, although the implementation of this abstraction implies at the same time the greatest mobility of all elements of the economy (see in this regard the considerations in Schumpeter 2010, pp. 135–46 [Schumpeter 1908, pp. 196–212 on a state of equilibrium (*Gleichgewichtszustand*) in chapter 'Preliminary questions of the cost theory']).

> Whereas an individual may receive his income in money and can transfer this money directly to his creditor, a nation's income, although it may be expressed in money values, cannot be transferred in the form of money values to a foreign nation. When a nation's annual production exceeds its annual consumption by 10 billion dollars, that amount is not stowed away somewhere in national vaults. It is impossible to transfer this wealth to a foreign country simply by writing and delivering a check for 10 billion dollars. There have merely been created within the country various forms of wealth valued at 10 billion dollars in excess of the wealth that has been consumed during the year. This wealth is not necessarily in a form that could be transferred beyond the nation's border. It may consist of factories, equipment, railroads, highways, enriched soil, etc., – in short, fixed capital goods, which can be used for the future expansion of production but which cannot be turned over to foreign lands in payment of debts. *Only such portion of the annual production can be turned over to a foreign nation as is in exportable form*. [...] It may be observed here, however, that a nation might deliberately seek to avoid having an excess of exports over imports, and then plead inability to pay.[291]

Moulton's reasoning is correct, but it does not refute our findings. The whole point is that a country could convert a greater or lesser part of the surplus of its products into a form suitable for export, depending on how much it would be *economically advantageous*, on how much this will foster international economic relations. Meanwhile in conditions of a reparation burden the question in general acquires a *non-economic* character, which not at all favours the creation of incentives to move values abroad, all the more, as also foreign countries are not very willing to accept this export. Therefore, Germany will, for example, accumulate the surplus of its production not in the form of railways, suitable for export, but in the form of railways, built using the same rails, but impossible to transfer abroad.

To this should be added that in general all the arguments about the possibility or impossibility of transferring values in their direct material form *mutatis mutandis* relate also to the field of domestic economic circulation. Roads or tunnels cannot only not be moved from one country to another, but in general not from one place to another, in whatever distance.

[291] Moulton 1923, pp. 15–6.

4. The influence of capitalist relations on the nature of international exchange and on the distribution of productive forces

We analysed until now questions of international exchange, abstracting from its capitalist form. But capitalism and international trade are inextricably linked. At the same time the capitalist form of exhange and of economic relations brings a lot of new elements into the problem, which were completely ignored by classical theory and only fragmentarily investigated by Marx. That theme deserves a detailed independent consideration. Here we are confined only to a conspectus of the most important features which in our opinion should in the first line be selected for analysis.[292]

We define international exchange [*obmen*], as the exchange among countries, found at different levels of economic development, thereby supposing that in the world economy *a single average rate of profit is not yet established*. Indeed, for the existence of this, a full and all-sided [*vsestoronnjaja*] mobility of capital and labour is necessary. There, where this mobility puts up with interference, is the inevitable formation of more or less delineated from one another economic territories with *independent* average rates of profit, interest, and so on. Different countries stand in such relations to each other, roughly like different branches of production stood to each other, between whom at various stages of development of capitalism movement of capital and labour had been hampered. According to Marx that is such a stage of development, which is characterised by the formation of a *single market value*, *but lacking an average rate of profit and price of production*. This very picture we have in the scale of the world economy: Single world value, single world market price, at least, on the most important objects of international trade, and the absence of *prices of production* in the world scale, *the absence of a world average rate of profit*. The world price, even apart from any additional influences, is thus a category of a very complex structure. It is not the world *value* of a given commodity.[293] Inasmuch as on the domestic market of each individual country the prices of commodities deflect in one or another direction from value due to the operation of the law aligning around the average rate of profit,[294] the world market

[292] [At the start of this chapter, Dashkovsky promised he would substantiate the following proposition: 'actually inequivalent exchange derives ... not from differences in productivity level of various countries [that is not from organic composition of capital, not from labour intensity, and not from objective factors of production], but from *specific conditions* of the modern [or contemporary] epoch, connected principally with the migration of capital and labour forces' (our emphasis). In this section he thus must elaborate on these specific conditions.]
[293] [This already follows from the general statement that price and value are distinct concepts.]
[294] [From the assumption that there exist an average rate of profit in a country and so also national prices of production, we see that Dashkovsky here is speaking of countries that are capitalist, and so his statement will hold even, or rather especially, if all countries in the world are capitalist.]

price on this commodity, being the *resultant of national prices*, likewise [meaning just as the domestic price] does not coincide with its value either: it deflects from both the national and the world value. From national value it deflects for the reasons stated above.[295] From world value it deflects – due to the fact that a given sphere [*sfera*] of production has a multiplicity of connective channels of varying throughput,[296] through whose mediation it is imparting[297] with other spheres of production, but where there exists such a 'diffusion', there the coincidence of market price with value already is impossible.[298] The world market price is not at the same time the price of production either, because there does not exist in the world economy a single average rate of profit. Each country, or rather, the entrepreneurs of each country fetch with this price a rate of profit different in magnitude, since they have *different* costs for the production of the given commodity, and these rates gravitate to the *national average*, and not to the world average. Of course, one can 'abstract' from the actual differences in national rates of profit and try to construct a world rate, as a kind of ideal average, which determines the international movement of capitals. In fact! After all, capital is moved among countries in search of higher profits, as likewise this happens inside countries. Why not generalise the internal and external movements with the help of one scheme, as we did with the law of value? For the simple reason that the *international movement of capital is fundamentally different from the internal one* – and we have already found out elsewhere: movement of capital within a country carries an *oscillatory* character, and the average profit rate plays the role of the real centre of oscillation. By contrast, in an international scale movement carries a *one-sided* character and no centre of the movement exists. This is movement of capital *towards* the formation of an average profit rate, but not *around* this rate. With world value, the matter is [thus] essentially otherwise: for the formation of a single price and [a single] value, developed commodity trade [*torgovli*] is sufficient, which is possible also at undeveloped forms of movement of capital.

Thus, world price is itself a peculiar market phenomenon, which does not coincide with any of the existing Marxist categories and still awaits its investigation.

4.1[299]

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[295] [The existence in a country of an average rate of profit and so prices of production.]
[296] [The term *propusknoj sposobnosti* ('throughput') in the sense of a *capacity*, for example of a port in handling annual shipments coming through, or capacity of a sewage channel system in handling an amount of rain flow.]
[297] [The term *soobschaetsja* in the sense of 'to make common' (communication), sharing with each other.]
[298] [Due to this claim, we cannot attribute to Dashkovsky the view that the law of value operates on the world scale just as 'purely' as it applies in simple commodity production (where price and value coincide).]
[299] [We create this subsection.]

Now about the impact of capitalism on the *equivalence* of international exchange. Arguing in the abstract, one could grant that the law of exchange, as described in the previous chapter [section one of the present chapter], completely continues to operate also in conditions of capitalism. Capitalists, considered, as representatives of the national economy, would receive for their share all those advantages which are achieved by a more productive nation at the expense of a less productive one. In the first country, the rate of profit – *insofar as it emerges from advantages of foreign trade* – would have been higher than the second. Everything that we said earlier about nations, would be 'forwarded' on the name of capitalists of every nation (of course, with the necessary corrections, such as that capitalists do not exchange their own labour, but the labour of their workers, and so on) – with the rest all would have to have been as before. Higher profits of capitalists of advanced nations would have two sources. On the one hand, the capital directly engaged in foreign trade gives more profit, which, being 'divided' among capitalists [of the other branches] of the given nation, improves the average [national] rate. On the other hand, foreign trade, contributing to the cheapening of many products, obtained from countries with the most favourable conditions for their production, allows to correspondingly reduce wages, and thus improve, other conditions being equal, capitalist profit. A reservation is needed here. In the more developed capitalist countries the rate of profit, as a general rule, is lower than backward ones for the well-known reasons (higher organic composition of *capital*, and so on). However, the more favourable position of this country on the world market may to some extent counteract the tendency of the rate of profit to fall. Here we see a curious phenomenon: two counteracting economic tendencies arise directly from one common economic cause. The common cause – is the growth of the organic composition of capital and growth of national labour productivity. It conditions on the one hand, a *lowering* rate of profit, on the other – its *rise*, inasmuch as more productive national labour acts on the world market as labour of a higher relative mass.[300] The total movement of the rate of profit is determined as the resultant of these two, as well as many other tendencies of capitalist development.

Thus, an equivalent international exchange could take place freely also in a capitalist frame, executing, so to speak, the *legal* methods of exploitation of other countries. But we proceeded from an assumption to which a 'small' correction needs to be made. We depicted the capitalists as simple 'representatives' of the national labour, who besides this 'representative' function do not have any other function and by their participation bring not

[300] [The latter point was the topic of subsection three of section one.]

at all any changes to the national-economic structure. In reality relations unfold 'a little' different. The issue is that capitalists 'represent' the working masses not like the latter themselves would do (Marx). The distribution of productive forces in the national economy likewise is essentially recast by the intervention of capitalism. One and the other [issue] arises from a simple fact: what a product costs producers, and what it costs capitalists – these are two different things. A nation, represented by the workers themselves, would exchange *its labour*. Would it be represented by capitalists, they are exchanging *commodities*, the prices of which the capitalist does not measure with *expended labour*, but with *production costs*.

4.2[301]

Does capitalism fulfil such a distribution of productive forces – in a national[302] or international scale – by which the forces of the nation really are spent in more advantageous areas, in terms of labour expended and received effect? This does not at all emerge with necessity from capitalist relations. Let us take the well-known law of the transformation of value into price of production. If this law is translated into the language of distribution of productive forces, then it reads as follows: Since branches with a low organic composition of capital (that is, in most cases the more backward branches) provide a rate of profit *above* the average, there is poured capital from other branches for as long as the individual rate of profit in this branch is not equal to the average rate. Conversely, from advanced branches with a high organic composition, capital pours out. Such capital flow-over has its positive and negative side. The positive is that the movement of capital contributes to a certain degree of technical re-equipment of the backward branches, fitting them to the level of the more advanced branches of the economy. (Rural backwardness of agriculture, for example, is caused precisely by the existence of a variety of obstacles, preventing a tide of new capital). But, on the other hand, the influx of capitals in a backward branch [*otrasli*], caused by a high rate of profit, insofar as it does not lead to an increase in the organic composition of capital already existing, but to the creation of new enterprises of the same backward type (why improve the technology, when profit is high also without that?) – has, undoubtedly, harmful consequences for the economy as a whole. It promotes the growth of production in less

[301] [We create this final subsection. It seems to contain the real arguments of the section.]
[302] [So as the following passage will for the first time (in this chapter) address the distinctiveness of capitalism, it must begin by outlining some basic capitalist phenomena, and these one already can find within mere national (domestic) exchange.]

productive branches, instead of using to the limit the advantages of production in technically perfected branches. When there is no capitalist form of economy, in an economy of 'associated producers', the distribution of productive forces would be substantially different. More 'capital' would work in the most advanced branches, less – in the backward ones.[303] Of course, the flow of means would go also then in the direction of the latter. But it would have then only one purpose: *technical re-equipment* of enterprises, not just their multiplication. These additional means for the upgrading of the backward branches would partly be obtained as a result from the change of value relations. Under capitalism commodities, produced in branches of low organic composition, have a price of production which is below the value.[304] The elimination of capitalist relations eliminates also the price of production, and the price of commodities of that category would have to rise to the level of their value. This would up to a certain extent compensate the weakening flow of new capital into these branches. This, of course, is only a *scheme*, which is very far from the diverse real relations, but it gives a representation on the general tendencies of redistribution of the productive forces.

In any case one thing is certain: capitalism, contributing on one side of its relation to technical progress and growth of labour productivity, encourages on the other side a *detrimental* distribution of production forces from the viewpoint of the balance of national labour, coercing above required limits the production of backward branches that – significant coincidence! – to a considerable extent are branches that supply objects of consumption of the ruling classes. More than that: precisely technical progress under conditions of capitalism feeds the backward economic form in many branches. The faster the organic composition of capital grows in the advanced branches, the more extensively the machine replaces human labour (directly in the companies themselves, indirectly, by competition with backward forms of small 'independent' production), – the thicker the ranks become of the reserve army of labour, providing so much cheaper worker hands, that it is unprofitable for the capitalists to substitute them with machines, and they serve the basis of technical backwardness, appearing together with this an attractive force for capital seeking quick turnover and high profits. There is no doubt that such a distribution of productive forces is least of all similar to the implementation of the notorious law of maximal benefit for the national-economic whole.

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[303] [We drew attention to how Dashkovsky put scare quotes around 'capital' also at the very start of his article.]
[304] [This line indicates that Dashkovsky's initial outline here of the distinctiveness of capital is only about a national economy, for he had just rejected the existence of an *international* price of production.]

Further. Although in each country there exists a theoretical average wage level and average rate of exploitation (s/v), both of these 'averages' oscillate in very wide limits. There exist such fields of the economy, in which more favourable conditions are formed for an unbearable exploitation of labour. These are primarily the branches consuming non-qualified labour force, where the most competition rages of worker hands, ejected from petty production, from villages, and so on. There is no need to dwell on the fact that conditions of labour here are worse than anywhere else, so that *despite the low productivity* (which could be higher under other organisations of production) the capitalist obtains here extremely high profits. But in addition, it is important to note the following. The labour force supplied to these branches, grows up in petty production. The capitalist finds it *finished* and does not have to pay for the value of its reproduction and education. A determined sum of labour, spent on maintenance and education of the labour force, does not at all take part in the formation of *value*: the capitalist after all interests in the end not the value of commodities, but profit, and in this case he has the possibility to sell his commodities well below the value and still with vast profits. Marx notes this same phenomenon in relation to the conditions of petty peasant production, located in a capitalist environment. As is known, the small peasant who after the Narodnik view is 'not interested' in receiving profits and rent with the price of his products, actually is forced to sell them at such prices that barely give him an existence, that is, a 'wage', although the product contains in itself an amount of labour, appropriate to a share of the profit and rent in prices of capitalistically manufactured products.

> This is one of the reasons why the price of corn in countries where small-scale ownership predominates is lower than in countries of the capitalist mode of production. A portion of the surplus labour performed by those peasants working under the least favourable conditions is presented to society for nothing and does not contribute towards governing the price of production or in general [towards] the *formation of value* [*oder in die Wertbildung überhaupt*]. This lower price of corn in countries of small-scale ownership is a result of the poverty of the producers and in no way of the productivity of their labour.[305]

As we have already noted, this phenomenon is not only characteristic for small producers, who 'represent themselves' on the market, but also for the mass of forced producers, who are 'represented' by capital. Despite the fact that the latter 'is interested' also in profit, rent, and

[305] Marx 1981, p. 942 [our adjustment, emphasis added].

all other earthly goods, he [the capitalist] receives in the structure of his profit such an amount of flesh and blood of his slaves that he can afford himself the 'luxury' of discounting with the real value of the product, bringing it to market for sale. Thus, a very impressive share of national labour factually is not involved in exchange, although also alienated first by the capitalist-entrepreneur, through the purchase-sale of labour forces, and through the mediation of capitalist-consumers, domestic and foreign,[306] through the purchase-sale of produced commodities. This is the main form of veritable inequivalent exchange. Sidney and Beatrice Webb, analysing the influence of capitalist free trade on the distribution and use of national labour, therefore, could rightly say:

> Under Free Trade the international pressure for cheapness is always tending to select, as the speciality of each nation in the world market, those of its industries in which the employers can produce most cheaply. [...] Instead of a world in which each community devoted itself to what it could do best, we should get, with the "sweat trades", a world in which each community did that which reduced its people to the lowest degradation. Hence the Protectionist is right when he asserts that, assuming unfettered individual competition within each community, international free trade may easily tend, not to a good, but to an exceedingly vicious international division of labour.[307]
>
> It is evidently not the sum of human efforts and sacrifices involved in the production that affects the import and export trade, but simply the expenses that production involves to the capitalist.[308]

International exchange under capitalist 'representatives' less than anything recalls, thus, the vaunted harmony so idyllically described by the classical school. Far from always countries concentrate their forces in the backward production where their work can be most effective. On the contrary, time and again, capitalism leads to an *unsightly* form of international division of labour, under which both sides lose. Suffice to recall the types of one-sidedly industrial and one-sidedly agrarian countries. Harmony lacks not only in the domain of *concrete* labour. It lacks likewise in respect of the balance of *abstract* labour. Equivalent

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[306] [We think this is the place where Dashkovsky switches perspective from domestic to international exchange, and so this is the real start of this section (taking the distinctive capitalist form and applying it unto international exchange). We could create a new subsection here, but the text had no separate paragraph, so we will leave it as it is.]
[307] Webb, Webb 1902, p. 864.
[308] Webb, Webb 1902, p. 865.

exchange is absent (which does not at all mean that an equivalent exchange would be good: we have shown that national [inter-country] exploitation operates in both forms).

Meanwhile with the foreign side the matter takes the ugliest appearance. Whether exploitation operates in non-equivalent or equivalent form, capitalism has for one and the other a specious cover in the form of the trade and payment [*platezhnogo*] balances, a cover so foolproof that time and again even astute observers pass by it. So, in our Marxist literature, despite the frequent mention of inequivalent exchange, every time when attempts are made at concrete analysis of the forms of oppression of the colonial countries, they do not go beyond matching assets and liabilities in the balance of payment.[309] As a rule, the colonial countries export more, by contrast the metropolises import more. (With young colonies and metropolises the situation, most often, is the opposite.) The tribute of colonies to metropolises is depicted as the surplus of export from the colonies. But it is in fact much greater and cannot be caught in value magnitudes. Here it is obligatory to draw the investigation to the *physical volume* of export and import, the distribution of it along groups [social classes] and to the types of commodities and establish price equivalents. Then, undoubtedly, it is found that even under an equilibrium of the balance of payments colonial countries factually give more than they receive, because they export their products at cheaper prices than corresponds to the value, while the products of metropolises are acquired at more expensive prices. More precisely the matter occurs like this: a young colonial country which first imports to itself capital from the metropolis (and has an overbalance of imports on exports), is *overcharged* usually on imported commodities. It is sometimes provided with loans even at the lowest interest, but is forced to make purchases in the creditor country and is assigned at the same time, using the monopoly of the seller, such prices, which more than cover the 'concession' in relation to the interest. By contrast, an old colonial country to which the time comes to repay the credit and which must export more than import, pays, besides this surplus export, a tribute in the form of excessively low prices for the exported commodities. And forcing the colonial country to do so is again this monopoly of the *buyer*, who together with this is the lender. The interest must be met, but as the payment can be paid only with produced commodities, and since the seller *has* to sell, then it is clear that it is not he who is in the best position. These things are sufficiently known to anyone familiar with our [Russian] pre-war trade balance and our international relations before the revolution in general. Let us repeat only that even when exchange happens according to equivalence, it nevertheless continues to be exchange of unequal amounts of

[309] [Compare Zvavich 1928 on the balance of payments in this volume, who overlooks this aspect.]

labour, which subjectively cannot be noticed, just as the [presently discussed] non-equivalent exchange [cannot be noticed].[310]

Capitalism within each country prepares the ground for international exploitation, which is then carried out, mainly, with the assistance of relations arising from the export and import of capital. Capital turns the producers of the specific country into its slaves, and itself turns into the agent of the ruling capitalism of other countries.

Migration of capital is not the only reason causing unequal or exploitative exchange. Predatory trade exists, as is known, ever since trade exists. However, migration of capital creates the most solid foundation for systematic plunder, provides it, so to say, constant reproduction.

On the other hand, the benefits accruing to the share of the ruling countries, that is, countries exporting capital, do not accrue to the share of its people. It would be a very considerable deviation from the topic, if we engaged here questions about the redistribution of national revenue under the influence of imperialism, and so on. It suffices to say that a country, exporting capital, in the end falls in the line of state-rentier, with all the features of stagnation and decay, which guarantee to it a more or less rapid 'disablement', as this happened before our eyes with England.[311] The redistribution of productive forces of the country happens in a direction less conducive to their genuine development, increases the mass of non-productive elements of society, and so on. A stagnation ensues in the vast wealth, and already Smith[312] noted that the payment for labour is highest not in the richest countries, but in extensively developing countries.

Under the influence of the capitalist form of international exchange a backward country can be reduced to such status that the *value* of the product of its annual production will decrease instead of grow. This happens in cases when commodities, produced at higher technology, penetrate into a backward country, destroying its own production of these commodities, by which the workers thrown out of the given sphere cannot find an application of their labour power in other spheres. The country absolutely [*absoljutno*] *becomes poorer* from foreign trade, instead of becoming richer in accordance with the classical theory, seeing in foreign trade only a harmony of interests. In such cases international exploitation is manifested not only in the fact that an advanced country exchanges a lesser amount of its labour for a larger

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[310] [We are uncertain about our translation. Dashkovsky used a double negation: '*ne mogut ne vosprinimat'sja*', so literally he means ' 'cannot *not* be noticed', that is, it is glaringly obvious. At the start of this article he called the fact of non-equivalent exchange 'glaring'. By contrast, in the present passage he just wrote that even Marxist literature often overlooks it.]

[311] [Compare Dashkovsky's review of Hobson in this volume.]

[312] [Probably meant is rather James Anderson (see Marx 1976b, pp. 702–3).]

amount of labour of the other country, but also in the fact that the labour of the population of the advanced country *substitutes* the labour of the backward country, and in capitalist conditions an exemption from labour goes together with exemption from means of livelihood.

Analysing the conditions of international exchange, we all the time revolved in the sphere of value relations. But a nation does not consume the value of commodities, but the commodities themselves, as consumer commodities (or production commodities, when the matter is about means of production). Therefore, the study of the form of international exploitation necessarily must include the question of *what* is imported in the country and *what* is exported out of it, for *whom* is exported and from *whom* are products taken for export. If the country exploits, for example, mineral wealth or products of its soil, and imports commodities such as alcohol, cocaine, all possible counterfeit products of the 'civilised' countries, then entirely independent of the *value* relations the country grows poorer from such trade. If a country exports production of petty producers or workers, due to the malnutrition of both of them, and imports consumer objects of the ruling classes by preference (as for example, in India or before the war in Russia), it is also quite obvious who in the 'country' gets the benefits from international exchange. The international division of labour, which capitalism realises under the influence of these circumstances, has nothing in common with the distribution of productive forces in the world economy which must emerge 'the next day' after the overthrow of the capitalist system.

International exchange *internationalises* the products of national labour. Only in the world market they turn in commodities 'sans phrase'. But the same occurs with capital. It deploys all its 'quality' only when finally released from the local boundedness, when it is internationalised. And the driving force here is the same, as also with the internationalisation of the product: to strive to the abstract form of wealth and to its unlimited increase. Without dwelling here on this vast subject, we would like to stress only the following point. From the viewpoint of the classics [of political economy], capital would have had to emigrate from the less productive countries into more productive countries. To this conclusion they inevitably came, inasmuch as they explained a fall of the rate of profit with the law of falling consecutive expenditure of labour and capital, that is, with a falling labour productivity. From this viewpoint the classics could not explain the whole subsequent course of development of capitalism, characterised by the continuous movement of capital just in the opposite direction – into backward countries, into countries of low labour productivity (this, of course, was not the only direction, but we take the question in its broad

features). True, Ricardo, and others proceeded from a representation of 'natural conditions' of productivity, as if it would be already not so contrary to the facts. But we showed the whole inadequacy and ahistoricity of such a scheme. One of the biggest achievements of Marx was to resolve this contradiction. Marx showed that precisely low labour productivity most often goes along with high rate of profit, and vice versa. Thereby was revealed the 'mystery of capital's movement' in the direction of backward countries. The transfer of capital between spheres of production, and especially between different countries is due, however, not only to the high rate of profit, taken in a *general way* (that is, as the ratio of total surplus value to capital), but also to the proportion in which the surplus-value is distributed among the landowners, the representatives of loan capital, the industrial capitalists. In other words, the movement of capital is determined not only by wages, but also the magnitude of rent and interest, which are different in different localities: and sometimes also in different branches of the economy. This circumstance is often dropped out of sight, although it is completely obvious that the rate of profit about which usually is spoken, analysing the causes of outflows and inflows of capital, is first of all the *industrial* or rather *entrepreneurial* rate of profit, which forms only a part of the surplus-value. Under one and the same organic composition of capital the profit rate can, therefore, be greater or less, depending on how one measures the magnitudes of interest and rent (about the wage we have already talked), which, it is understood, also are due to the organic composition of the social capital, but only in the *final light,* through a whole number of intermediary links. This circumstance also Marx underlines:

> Both in competition between the individual capitalists and in competition on the world market, given and presupposed amounts for wages, interest and rent go into the account as *constant* and governing quantities; constant not in the sense that they do not change, but rather in that they are given in any one particular case and constantly set the limit [*die konstante Grenze ... bilden*] for the ever fluctuating market price.
>
> In competition on the world market, for example, it is exclusively a question of whether, with the given levels of wages, interest and rent, the commodity can profitably be sold at or below the given general market price, i.e. whether it can be sold to realize an appropriate profit of enterprise. If wages and the price of land are low in one country but interest on capital is high [because the capitalist mode of production is not fully developed] while in another country wages and the price of

> land are nominally high whereas the interest on capital is low, a capitalist in the first country will use more land and labour and a capitalist in the other relatively more capital.[313]

These multilateral influences explain why the transfer of capital is committed very often not at all in a direction predestined by the difference in the organic composition of capital of different countries, but in the most diverse directions. Thus, for example, in a highly industrialised country the organic composition of capital is high, the general rate of profit is low, but with low interest on invested capital, *entrepreneurial* profits may prove *higher* than in a backward country, and *industrial* capital will not have an incentive to move abroad. On the contrary, rent acts in the opposite direction: it is higher, the lower the interest on capital, and it promotes a decrease of entrepreneurial profit in those countries where low interest conditions a rise of this profit.

Mystically inclined minds could see in all this a kind of pre-established harmony. In fact! How else could culture spread over the terrestrial globe, if capital, drawn to unknown shores by the thirst of accumulation, did not take on itself the civilising mission. And can there not together with this exist the concern, how with the 'premature' liquidation of capitalism the reverse tendency would not prevail, – the tendency to autarky, to an 'exodus' of capital from the colonies, or rather, to a stop of the flow of new capital towards there, and so on.

That capitalism fulfilled 'with blood and iron' a determined mission both in the world, and in the national scale – this is entirely indisputable. It would be pointless to engage predictions on how the matter would have turned without capital. The fact is that the world market and the world economy was created by it. Can one fear that with the elimination of capitalism a disintegration happens of this world economy? A monstrous idea! It sounds as wild and 'persuasive' as the claim that with the death of capitalism modern culture and technology will end. On the contrary! Doom could threaten if the existence of capitalism would be extended for a long time, and it could manage to exhaust itself in all respects, *including in its world-economic mission*. Precisely capitalism becomes now an obstacle on the road of the industrialisation of such colossal countries, like the USSR, which it tries to block economically, [and] like China, where it instead of capital sends now troops and munitions. A world economy is needed now with higher unity, with unity of a higher type, than the world market, whereas post-war capitalism is powerless to arrange even the [world] market on any

[313] Marx 1981, p. 1014. [Daskovsky left out the line we put in brackets; 'weil überhaupt die capitalistische Produktionsweise hier nicht entwickelt ist' (Marx 2012a, p. 892).]

tolerable basis. We do not even talk about the fact that the contradictions permeating the capitalist system impacted also the methods by which it established a world division of labour, which in its present form, less than ever meets a rationalistic use of the labour forces of humanity. The elimination of capitalism cannot eliminate world-economic unity, cannot stop the genuine cultural mission of advanced countries, for the simple reason that the existence of the latter is entirely inconceivable outside the intimate *bond* [*smychki*] with backward countries, helping them in the matter of economic and technological reorganisation. That which capitalism began, chasing after profit, the socialist revolution finishes through consciously directed effort, eliminating together with the category of capital all forms of exploitative exchange [*obmena*] and fraud [*obmana*], gradually eliminating also international exchange in its present form. Perhaps matters also will not come to the formation of a world average rate of profit and price of production. These categories thus also will remain unfinished.

Chapter Three

National Economies as Nodes of World Economic Relations (1930)[314]

Nikolai Petrov

We preface the present article with an overview of participants in the debate on the term 'world economy' in Russia.[315] We already pointed out that this debate was not really independent or demarcated from general Western (bourgeois) economics. One survey of bourgeois authors' views on world economy included:[316] Smith, Ricardo, Cairnes, Neumann-Spallart, Sombart, Adolph Wagner, List, Sartorius, Friederich von Wieser, and Bernard Harms (1876–1939). As for the debate in Russian publications in the 1920s, it was precisely a debate, and not a unified doctrine on world economy. We do not contextualise it as some distinctive theory.

At the centre of this debate (in Russian) was the 1928 book by Miron Spektator (Nakhimson), who, as we already indicated, was likely never a member of the Communist party.[317]

By the way, let us quote Goldstein's passing criticism of Spektator's 'dubious concept' of an *international price of production*: 'There can be no talk of a "price of production of the world market", since on the world market there is no average world rate of profit, as the flow of capital from one country to another encounters significant difficulties which prevent the alignment of national rates of profit'.[318] Goldstein likewise, in a 1929 review of Petrov's book on international trade,[319] objected to the view (held by Petrov) that in the world economy there are not more obstacles than within a national economy.

Not yet published at the time of Petrov's summary was, for example, the article by Tsagolov, or also the article by Ziman.[320] Petrov's gloss on Dashkovsky in particular seems unfair, but his assessment that much of the dispute turned on definitions is justified. Hence our choice

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[314] Submitting Petrov's article for discussion, the editorial board [of *Pod znamenem marksizma*] requests comrades working in this field to speak on the pages of the journal about the treated questions, especially in light of the fact that questions of the theory of world economy in our press are insufficiently elucidated. [It seems no further debate followed.]

[315] See Petrov 1930a, pp. 78–9. This is from a different article of Petrov in the same *Pzm*-journal, half a year prior to the one we translate with this chapter. See our volume's bibliography for the Soviet references provided by Petrov here, as well as some additional ones not included. This early article of Petrov does not yet deal with Dashkovsky in particular.

[316] See Ugarov 1927a.

[317] Spektator 1928a counts 320 pages, its longest chapter being on capital export. From the book's table of contents we see it was the most in depth Soviet treatment of subject matters of world economy.

[318] Goldstein 1931, p. 12. Yuri Goldstein (1890–1939) had been a member of the Bund since 1905, RCP(b) since 1920; served in the Trade Mission (or representation) in Germany during 1922–25, from 1925 onward in the People's Commissariat of Trade, and also was professor at Moscow State University.

[319] See Petrov 1929a. This book (175 pages) was not read by us.

[320] Ziman (1900–56), economic-geographer, criticised Trotsky on the Chinese revolution (Ziman 1932).

not to translate most of those other pieces for this volume, and also because the main focus of our volume is international trade (although the dispute can be of theoretical interest).
Here then is Petrov's summary of the debate:

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> Much less understandable [than the divergence among bourgeois economists] at first glance is the lack of unity among Marxists and communists on the question of what is, finally, the world economy.
>
> Bessonov rejects in general any kind of existence for the concept of 'world economy', and if he were to reconcile with it, then only as a colloquial concept, and only because Lenin himself sometimes uses this concept.[321] According to Bessonov it is time to return from the term 'world economy' to the term 'world market'.[322]
>
> Butaev by contrast believes that the world market, insofar as it existed still in the era of trade capitalism – and, consequently, did not at all necessarily rely on a single mode of production which subordinates to itself other modes of production, – does not represent itself an independent subject of study and in no case should be a substitute for world economy.
>
> Joel'son attempts to distinguish world economy from capitalism (not only from monopolistic capitalism, as Joel'son himself thinks, but of every sort – we recommend to him that he carefully read his own work) in this way, that the concept of world economy includes also the 'productive apparatus of society, consisting of both material elements and people, united with each other in production relations'. In other words, the author struck the most vulgar game in 'definitions'.
>
> Spektator [Nakhimson] and his armour-bearer Buchartsev date the world economy only from the last quarter of the nineteenth century and it is therefore correlative of imperialism, monopoly capitalism.[323] Ugarov[324] and Butaev are of a different opinion and trace the history of the world economy to the moment of the emergence of the capitalist mode of production, that is include in the doctrine on world economy the epoch of industrial capitalism.

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[321] [See Lenin 1899, p. 67 (p. 27 in original Russian first edition): 'the progressive historical work of capitalism [...] links all countries of the world into a single economic whole'. Zalivalov 1930, p. 103 paraphrased this as: '... linked all parts of the globe into a single *world economy*' (my italics).
By the way, this passage from Lenin's book is referenced in Miklaschevskij 1904, p. 165.]
[322] [It is not clear in what way, if any, Bessonov's position differs here from that of the German historical school (discussed in Dashkovsky 1927a). From 1930 Bessonov worked at the Trade Mission in Germany, in Britain in 1932, and from 1933, again in Germany, at the Soviet embassy.]
[323] [Same dating of Kuczynski 1949.]
[324] [Aleksandr Ivanovich Ugarov, 1900–39, party figure, arrested in October 1938.]

Some authors consider the world economy to be some next 'stage of economic development' following the national economy, which from this point of view is a 'former', 'earlier' stage. To these conscious or unconscious followers after Bücher and Maslov, rests, along with Spektator, also Bukharin. Other authors and reviewers prefer to keep quiet on this question.

Next, Ugarov holds the view that the world economy should be the subject of 'a special science of world economy' because, according to his opinion, theoretical economics limits its research to analysis of the system of production-exchange relations of 'abstract capitalism', [whereas] the world economy represents a concrete-historical environment. An analogous attempt is made also by Butaev to distinguish between the 'abstract' and 'concrete', placing the 'concrete-reproduction process' with the study of world economy. The editorial board of *Vestnik* from its side expressed itself, in a note to Ugarov's article, completely negatively as regards the necessity of a 'special science of world economy'.

If we turn to particular problems of world economy, such as international trade, capital export, world crises, we can still find the most contradictory opinions. For example, Goldstein puts in quotes any 'theory of international trade', believing that for such there is no place at all. The editorial board of the journal *Questions of Trade*, where the article of Goldstein was published, by contrast, stipulates in a note that it holds a different view, namely that 'the need has matured for the construction of a Marxist theory of foreign and international trade, which cannot be thought of differently than in the form of a special section of theoretical economy'.

There is no single answer even to such a simple, apparently, question as the definition of the foreign market for capital. Herzenstein after Rosa Luxemburg believes that only the non-capitalist social environment can be considered as such that absorbs the products of capital and supplies the latter elements of production and labour. Approximately the same idea is expressed by Dashkovsky with the following: 'When questions of international economy are approached in terms of political borders, the very problem (of world economy – *N.P.*) disappears.'[325] '[...] A theory of economic connections between different economic organisms acquires sense only if these organisms represent different economic types or different stages of economic development'.

[325] [See our footnote at the end of Dashkovsky 1927a.]

> How can we explain this disparity in statements about the world economy even among Marxists? It cannot be explained by anything other than by the lack of a sufficiently scientific, that is dialectical approach to the study field of the phenomena. Each researcher *arbitrarily* takes those or others attributes which to him seem most fundamental, and with their help creates the concept and determines its content. No one has yet pondered on the question, whether one should in advance explain the *necessity, the lawlike-pattern of the phenomena itself*, but indeed only by following such a path can we break free from the application of different accidental and arbitrary moments. [...][326]

The debate on questions related to the concept and emergence of 'world economy' remains open.[327]

Nikolai Grigor'evich Petrov (1892–1964) was born in Gagino in Nizhny Novgorod to peasants, studied at a theological seminary, and graduated from medical faculty at Moscow University.[328] During the February 1917 Revolution, Petrov commanded a militant (*boevoj*) student squad that occupied the building of the Okhrana. He became a member of the RSDLP(b). Since May he served as a junior doctor in the infantry regiments of the 2nd Army (on the front); following the July days he was arrested, but he could be released, and transferred to the 6th Tauride Grenadier Regiment.[329] He did much to prepare the troops for the October Revolution (member of Military Revolutionary Committee, which he proposed be set up).

From October 1917 to February 1918, deputy-chairman and chairman of the Army Committee (of the 2nd Army). Participated in the delegation to conclude a truce on Russia's Western Front. Later the commissioner of health of the Western region and the head of the medical unit of the Western Front. In 1920–21, Petrov was head of the Orenburg (oblast) party school and a member of the (oblast) party committee.

After graduating (1921–24) at the economic department of the Institute of Red Professors, he worked at the secretariat of Zinoviev and taught political economy. In 1925, Petrov was on a scientific mission in England and France. In 1926–29, at work in the People's

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[326] Petrov 1930a, pp. 78–9 (our translation).

[327] Its conceptual identity has remained vague, as noted apropos the 1986 two-volume *The Emergence of a World Economy, 1500-1914*: 'We have still not addressed, head on, the central question of what we mean by an emerging world economy' (p. 369). For one intervention on 'globalisation' see Flynn and Giráldez 2008.

[328] This biographical note is based on Kozlov 1993, p. 131.

[329] 'Solely thanks to the energetic intervention of the Bolshevik faction of the Army Committee of the 2nd Army, in particular comrade [Franciszek] Gzhelshchak, I got away with only a new assignment to the front [instead of death penalty for treason], though to a more “reliable” unit' (Petrov 1967, p. 128).

Commissariat of Trade, a consultant to Mikoyan (its Commissar) and head of the department of trade missions (*torgpredstv*; trade delegations in foreign countries). As an active participant in the Trotskyite-Zinoviev opposition, who signed the 'platform of the 83', received a severe reprimand in 1928 with a warning. Evidently, as from the present article's couple of sneers at Trotsky, his political path was closer to Zinoviev than to Trotsky.
During these years Petrov worked on a 700-terms subject index to Marx's *Capital* in Russian (105 pages).[330]
In 1929–31 headed the Institute of Foreign Trade Monopoly, was relieved of his post in connection with 'clogging up of the apparatus with bourgeois-wrecking elements'. In 1931–33 professor of Political Economy at the Academy of Foreign Trade.
In 1933–35 head of the price sector of the People's Commissariat of Supply (Narkomsnab), and deputy head of the price regulation department of the People's Commissariat of Internal Trade (Narkomvnutorg). In March 1935 expelled from the party for his links with the Zinovievites, was restored in October with a severe reprimand and warning. In 1935–36 supervised the administration of the Sanitary Service of the Commissariat of Food Industry (Narkompichsheprom). Excluded in May 1936 from the party 'as an unarmed Trotskyite-Zinovievite', he was arrested and sentenced to eight years in prison.
In 1936–47 Petrov served his sentence in Moscow, Vladimir and in the camp of Temirtau. He worked as doctor while in (internal) exile until 1954. In 1954–56 physician in Moscow province hospitals, and head of the sector of foreign technical information of the Ministry of Food Industry.

As to present article, it contains the following sections:

1. The problem of 'nation' and political economy
2. The fundamental premise of Ricardo's theory of foreign trade
3. The emergence of trade and its division into foreign and domestic
4. Some characteristic features of the national state
5. Types of national economies
6. The unity of production relations of the capitalist world
7. About 'modification' of the law of value in world economy
8. Nationalism and imperialism

[330] Petrov and Stepanov 1929c.

Petrov criticises our preceding chapter two (of Dashkovsky), although, again, we think Petrov's gloss on Dashkovsky's views is unfair. Petrov's criticism came more than three years after the publication of Dashkovsky's articles, and there apparently was no other sustained engagement with them before or after. It is found mainly in section seven. Despite what Petrov's title for that section might suggest, it becomes clear that he takes the issue of modification of the law of value not like Marx and Dashkovsky do, as concerning the direction from the national level 'up' toward the international level. Instead, Petrov idiosyncratically views the issue as concerning the opposite direction, from the international level 'down' toward the national level. He thus does not even address Dashkovsky's arguments. When Petrov argues that there is no modification, he means from the international level 'down' to the national level. But that is not what Marx or Dashkovsky even claim (or would dispute). Petrov does not engage with their perspective of modification from the national level 'up' to the international level. Besides, for Dashkovsky, unlike Marx, there is no actual modification of the law.

Do not be fooled by the fact that much space of Petrov's article is devoted to analysis of the national economy. His theoretical position is that the world economy has primary importance. He contrasts this to Dashkovsky's approach, but we do not think that Dashkovsky argued that the world economy is secondary to national economy; if Dashkovsky's articles gave this impression, it was probably just due to Dashkovsky following Marx's own method of presentation, starting in *Capital* within a nation, and relegating the topic of world market to a later book (that never was written). This is not to say that Petrov's approach is wrong. Precisely because he believes in the primary importance of world economy, Petrov's task lies in explaining how or why national economies can exist.

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'*Capital* – which is devoted solely to a study of capitalist society – gives a materialist analysis of that society and its superstructures'.[331]

1. The problem of 'nation' and political economy[332]

[331] Lenin 1894, p. 149.
[332] [We numbered the sections of Petrov's article.]

Can political economy neglect the concept of 'nation' [*natsija*]? – Hardly anyone would say 'yes'. The question itself will bewilder most readers: how can one doubt and question such uncontroversial concepts!

However, we face a sad fact: no notion in political economy has suffered such an unenviable fate as the concept of 'nation'. This concept is constantly used by us under the most varied names: 'nation', 'national economy', 'people' [*narod*], 'national economy,' 'trading nation', 'country', 'state-territorial unit', and so on. It is important; we cannot do without it in political economy... and yet we either 'boycott' it, or use it completely uncritically, making thousands of mistakes because of this.

We lightheartedly use the expressions: 'foreign trade', 'international trade', 'export of capital', and so on. Do we invest enough meaning into these words? Are we using these expressions scientifically enough?

Do we, for example, consider *for whom and in which precise cases trade is 'foreign'*? – After a little thought, we must agree that some 'self-evident' response, – for example, that we speak of 'foreign trade' when dealing with certain territorial associations, – cannot satisfy us. In the economic literature and everyday press, one sometimes speaks not only of the foreign trade of France or the United States but also of the 'foreign trade' of the Moscow region or Bavaria, on one hand, and of the 'foreign trade' of the British Empire as a whole, on the other. According to Fal'kner, one can speak of the foreign trade of any economic district, completely regardless of state borders, that is of regions in a state, with the same right as one would for entire states.[333] English economists have recently been intensively engaging with the problem of the 'foreign trade of the British Empire'.[334]

There are also other disputes in the definition of the concept of 'foreign trade'. Rosa Luxemburg and some of her followers define foreign trade as a relationship of the entire capitalist sector with the pre-capitalistic one. The latter is always an 'external market', even in such cases, for example, when a German industrialist sells goods to a German peasant. But trade, in her opinion, is internal if the exchange takes place between the capitalists of Germany and England.

Hence, we must agree that it is appropriate to raise the question, at first extremely clear and simple: for whom is trade 'foreign', who and on what grounds is accepted by us as a 'subject'

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[333] *Voprosy Torgovli* 1928, No. 4 (January), p. 31. [Title not found. S.A. Fal'kner also in 1928 wrote two articles in *Planovoe Chozjajstvo* on the national account.]

[334] *Voprosy Torgovli* of March-April 1930 gives a detailed overview of the Thirteenth Report [A Memorandum on the Trade of the British Empire] of the Imperial Economic Committee, published in 1930 and containing a calculation of the 'internal' and 'external' trade of the British empire. See pp. 148–53.

of foreign trade? What are 'peoples', 'nations', which 'conduct' between themselves 'international trade', 'export of capital', have an 'exchange rate' and so on?

Marxist political economy needs a precise and clear resolution on the issue of 'trading nation' not only for overcoming difficulties of the type that we just mentioned. The concept of 'nation' for a long time has already become the cornerstone of a number of bourgeois theoretical constructions. Taking advantage of the fact that in the question of the 'nation' everything is 'self-evident', not encountering resistance from the side of dialecticians, bourgeois politico-economists managed not only to create but also widely spread their more or less developed theories of foreign and international trade. Is it necessary to say that these theories do not have a grain of understanding of the essence of the production relations of capitalist society!

Marxist economists, with few exceptions, carefully avoid in their 'courses' and other works the raising of the problem of 'nation', of national economy, but immediately begin with the export of capital, the rate of exchange, and so on. It does not even come to their mind that not every spatial transfer of capital means the export of capital, but only such where capital leaves one country ('nation') and moves to another.

Marxist criticism of bourgeois theories of international trade has not yet been developed in any satisfactory degree, and it is easy to show why. *It did not touch the fundamental element of the whole theory, the concept of 'trading nation'*. Worse, Marxists themselves sometimes operate with this concept, unconsciously using it in Ricardian style. In this way there is an ideological submission to Ricardo exactly at that point where the founder of labour value unequivocally renounces the latter.

Not only the consideration of the need to expose the foundations of the bourgeoisie theory of foreign trade should guide us. In the age of extremely intensive international economic relations the economist cannot lack his own view on the issues of world economy, cannot lack an independent conception, a *theory* of foreign and international trade and of world economy. We know only a couple of attempts on the part of Marxists to invade for some distance into this domain, attempts that have ended in complete failure. One of them was made by Bukharin. In the following we hope to show that the essential error of the latter lies precisely in a misunderstanding of national economies. The interpretation of these latter as 'nodes' of the world economy in *Bukharin was done in an entirely mechanical way*.

The problem that interests us here is divided into two parts. The first boils down to the question of the attributes of a nation as a 'trading nation' and its emergence. The second is the question of how far extends the mediating action of the 'nation', to what extent its

presence mutates ('modifies' [*modifitsiruet*]) the general laws of the market known to us, the laws of capitalist production relations.[335]

However, the division of the problem before us into a 'first' and a 'second' part is largely conditional. It would be more accurate to say that before us are *two sides of the same problem*. There is least of all sense in such work on concepts that does not proceed on the basis of a simultaneous or preliminary clarification of the *essence* of the process, and therefore also the essence of capitalist production relations. Therefore, both parts of the problem should be resolved simultaneously.

The bourgeois theory of world economy, foreign and international trade is based on the backbone which it finds in the works of David Ricardo. Since the time of Marx, it is known how inconsistent Ricardo is in relation to the by himself formulated law of labour value, even where he *wants* to follow this law. However, that serious vice of the scientist, inconsistency, pales in comparison to another vice, – *betrayal of one's own principles*, – that we find in Ricardo when the latter touches questions of foreign trade.

According to Ricardo, the 'rule which regulates the relative value of commodities in one country (that is, the previously developed law of value. *N.P.*), does not regulate the relative value of commodities exchanged between two or more countries'.[336]

From this statement of Ricardo follows the attempt to build on entirely new principles a special theory of foreign and international trade. There emerged a clear, not hidden from Ricardo himself, *contradiction between two parts of one and the same work*. Exchange within a country should be carried out basically according to the law of value. The same exchange, when it crosses the state border, – according to some other principles, has nothing in common with labour value and even permits a refutation of the whole law of value.[337]

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[335][This is an instance of Petrov's peculiar view of the issue of modification, that we highlighted in our introduction.]

[336] Ricardo 1821, pp. 138–39. [The Russian 1929 edition of Ricardo's *Principles* had an introductory article and notes by Riazanov.]

[337] Such an attempt to refute Ricardo with the help of the same Ricardo is made by Weigmann in the recently published work *Critical Contribution to the Theory of International Trade* (1926). [The Marxist writers] Spektator (1930a, p. 43) and Tsagolov do not understand Ricardo and say that in his theory of foreign trade 'the law of value undergoes modification [*preteprezaet modifikatsiju*]' (Tsagolov 1930 No. 7–8, pp. 127, 129). [Insofar as the word 'modification' for Tsagolov signifies merely a 'change' it thus preserves the law's validity in foreign trade, whereas Petrov holds that Ricardo (consciously) *cancels* the law of value in foreign trade. So, for Petrov 'modification' (of the law) is too weak a word in Russian. This is the point of his objection against Tsagolov. For Dashkovsky the word 'modification' (in Marx) meant cancellation. On the substance of what is Ricardo's view, Petrov and Dashkovsky thus agree, but semantically Petrov would not use the word 'modification' in describing Ricardo's view. Ricardo himself (in English) used the term 'modification' only in describing the shift to the specific capitalist law of value, but so he did not use this term apropos foreign trade (this choice of word thus was introduced by Tsagolov, in Russian). We will see that in his dispute with Dashkovsky, Petrov does not address Marx's own use of the term 'modification' as regards foreign trade.]

It does not take too much effort in order to understand the root of Ricardo's mistakes. It lies in the representation of the 'nation' as something dominating over social relations, as an ahistorical phenomenon, eternal, which one has to accept in the quality of finished and obligatory premises of theory.

To criticise the theory of foreign trade of Ricardo and his followers – means, first, to criticise the method that allows to take this kind of premise, and, secondly, to show in a positive form that the 'trading nation' is a derivative of the production relations of capitalist society, and not something given from outside. We never will escape from mistakes, that were not avoided by Dashkovsky, Akulenko and many others, if we do not preliminarily disassemble the setting of the question.

Already from the above-stated it is clear that political economy must not neglect the concept of 'trading nation' ('national economy' and so on, whatever the terminological denotation may be), but carefully analyse it. Otherwise, we will not be able either to criticise bourgeois theories, or build our own.

Unfortunately, most of our political-economists 'hath chosen that good part'.[338] In numerous 'courses', handbooks and other works the problem of 'nation' is treated with grave silence. When our authors approach questions of international trade, the rate of exchange and so on, they somehow take the issue of national economy as solved. Is it any wonder that in the relevant sections they fall under the influence not only of Ricardo, but even the vulgar J.S. Mill, and that, thus entering into a dead end, they cannot make even the slightest step forward.

A special position is occupied by Bukharin and his 'school' in questions of world economy in the persons of Ugarov, Butaev and some others. In his work *World Economy and Imperialism* Bukharin not only does not bypass the concept of national economy, but makes it one of the most important moments of his conception of 'organised capitalism'.[339]

To nobody else as precisely Bukharin belongs the in itself beautiful formulation, which we took as title of this article: *"National economies" as Nodes of World Economic Relations*.[340]

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[338] [Luke 10: 42.]

[339] The author of this article himself committed in 1928–29 gross mistakes of methodological order in the work *International Trade and Trade Policy*. In that work Bukharin's conception of world economy was held. The author considers a detailed criticism of his own mistakes an obligation, which he expects to do already in his next work devoted to questions of trade policy. [Goldstein, in his review, raised this against Petrov. The here announced self-critique of Petrov apparently did not appear.]

[340] [Bukharin 1972b, p. 63. Translation of *uzly* there in English as 'intersections'. We prefer to translate it as 'nodes' (node comes from Latin, it is just a fancier synonym for a 'knot' in English). Title in German (1929): *Die "nationalen Wirtschaften" als Knotenpunkte der weltwirtschaftlichen Beziehungen*. The same German word was earlier used by Parvus, but he by contrast called the world market itself a single nodal point: '[S]erious research of every economic phenomenon of some significance by necessity boils down to the world market as the nodal point [*den Knotenpunkt*] of relations of productions', see 'Der Weltmarkt und die Agrarkrisis', p. 198

Unfortunately, the brilliant verbal clothing in Bukharin covered a not so brilliant train of thought. The content which is hidden behind Bukharin's expression, is significantly wider than it should be, and has absolutely no dialectical character, although it would have seemed the use of the word 'nodes', taken from the Hegelian arsenal, obliged to this.[341]

If we look closer at the 'national economies' of Bukharin we see that in him they have long since become not 'nodes' of capitalist social relations, but completely mechanical formations, closer to the also more exactly defined other expressions of Bukharin of 'state-capitalist trusts', 'national economic bodies' and so on. Bukharin repeatedly points out in his works that national economies, considered in relation to the world economy, seem to him to be something similar to an individual enterprise in relation to the 'national' economy.

Thus, the need of *theory*, the need to fight alien to us worldviews imperatively requires us to study the problem of national economy. Equally imperious this demands also the need of *practice*. In our [the Soviet Union's] daily activity we meet with the need to answer the question: are they a 'nation' or not a 'nation' – Canada, the Union of South Africa, India? Whereto grow the British dominions, what is the outlook of their further development? What does the clause relative to dominions in the [1930] temporary Anglo-Soviet Trade Agreement mean from the viewpoint of long-term prospects? Do we have before us an export of capital, when value is transferred with the goal of production of surplus-value from Paris to the northern coast of Africa? and so on.[342]

All this convinces us that the setting of political economy on the problem of national economy is fully justified.

2. The fundamental premise of Ricardo's theory of foreign trade

The subject of Ricardo's economic works are the exchange relations between people, the exchange society in its capitalist phase. To questions of foreign trade are devoted a whole series of observations and chapters, scattered everywhere, but specifically the theory of foreign trade is treated by him in chapter seven of *Principles of Political Economy*. And here in all these places, especially in chapter seven, we meet with the emphasised assertion that exchange within the limits of a country – is one thing, the exchange between different

in *Die neue Zeit*, 14 (1895–96), 1, nr 7.]

[341] [Not exactly the word 'Knoten*punkt*', but a section in the *Science of Logic* is titled: Nodal Line of Measure Relations (*Knotenlinie von Maßverhältnissen*)..]

[342][More fundamentally, on whether any capital export as such is a transfer to another nation, see the Kuczynski-quote in our introduction to chapter five.]

countries – quite another. So different, that the law governing exchange in the first case completely is not suitable, not in any of its parts, for international exchange. In both spheres there is exchange, in both there are individual enterprises and, in spite of this, we are faced with two different natures!

Ricardo, as well as later J.S. Mill, perfectly saw that such a distinction of the market into two completely different spheres requires some justification – he tried to give it to us. He tried to point us to that attribute by which we distinguish the external market from the internal one, that basis on which we must build special laws of exchange for each of them. Here they are:

> In one and the same country, profits are, generally speaking, always the same level; or differ only as the employment of capital may be more or less secure and agreeable. It is not so between different countries. If the profits of capital employed in Yorkshire, should exceed those of capital employed in London, capital would speedily move from London to Yorkshire, and an equality of profits would be effected; but if in consequence of the diminished rate of production in the lands of England, from the increase of capital and population, wages should rise, and profits fall, it would not follow that capital and population would necessarily move from England to Holland, or Spain, or Russia, where profits might be higher.[343]

In this quote there is a whole series of positions with which one cannot agree. Some of them, despite all their mistakes, we, however, leave aside, since they do not relate to the present topic. Such as, for example, the statement on the reasons which, in Ricardo's opinion, can lead to a fall of [the rate of] profit ('increase of capital and population').

Here it is important for us to focus only on those reasons that, according to Ricardo, do not allow the falling rate of profit to align with [that of] other countries. It is quite obvious that if these reasons are correct, then in significant extent also will be justified the position of non-applicability of the law of value to international trade. Then it becomes unquestionable that value as regulator of social production and exchange finds a limit to itself precisely where the limit is imposed by the free movement of capital and labour.

What are the reasons that prevent value of being the regulator of production on a world scale?

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[343] Ricardo 1821, p. 139

> Experience [...] shows that fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connections, and intrust himself with all his habits fixed, to a strange government and new laws, check the emigration of capital. These feelings, which I should be sorry to see weakened, induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations.[344]

This pivotal point of the entire theory of foreign trade of Ricardo should be considered in the most careful manner. Ricardo is convinced of the existence of some factors that stand between an individual entrepreneur and the world market, insofar as it is a matter of moving capital. What are these factors?[345]

1. '*Fancied or real insecurity of capital, when not under the immediate control of its owner'*. This consideration, at first sight, is of a purely economic nature. However, the author himself stresses that with 'the real insecurity of capital' along comes still a 'fancied' one. In other words, a completely subjective, psychological moment, an 'opinion' is specified as an obstacle to the transfer of capital across the border. So, an 'opinion' stands across the path of the spontaneously developing and blindly operating laws of the market!

But what about the 'real insecurity of capital, when not under the immediate control of its owner'? – Here two things must be noted. First, every capital to one or another degree is 'not secured', even when it 'is under the control of its owner'. Otherwise, there would be no bankruptcies. In the earlier given quotation Ricardo himself stammers in the same spirit: 'In one and the same country, profits are, generally speaking, always the same level; or *differ only as the employment of capital may be more or less secure and agreeable*' (emphasis mine. *N.P.*). Hence a difference in the degree of security, that is insecurity, exist also within one country.

Secondly, every capital in one or another degree is necessarily 'not under the immediate control of its owner', whether it is in the sphere of the internal or world market. The difference here is not fundamental, not qualitative, but purely quantitative. Moreover, the quantitative difference very often may not be in favour of the domestic market, but in favour of the foreign one. Why is it easier for a Bavarian merchant to exercise his control, if his capital will move, say, to East Prussia, than if it were moved to Switzerland, Austria or

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[344] Ricardo 1821, p. 143.

[345] [Petrov will now go over three factors.]

France? Is it not the other way round, taking into account the proximity of distances, the convenience of transport, and in relation to Switzerland and Austria – also the unity of language? Why is it preferable for capital from New York to rush to California or whatever other western, southern, central states of the United States, and not to nearby Canada?

Finally, this consideration completely loses its validity in those cases when together with capitals also the capital owners move abroad, when there occurs, in Hilferding's words, a 'denationalisation of capital'.

Thus, everything that in the given position seems 'economic', in fact, turns out to be unconvincing, insignificant, non-principled. That which seems specific (the 'opinion' of the capitalist about the security of his capital), is devoid of economic significance.

2. '*The natural disinclination which every man has to quit the country of his birth and connections, and intrust himself with all his habits fixed, to a strange government and new laws'*. In that argument the psychological moment, one can say, bulges out of all grooves. If it really played the decisive role that it is credited by Ricardo, the movement of capital from one country to another would not take place at all.

Does the matter stand as Ricardo portrays it?

Wherever capital flows, it creates above all those social relations that have developed in its homeland and which it finds in other developed bourgeois countries. 'Strange governments' and 'new laws' are for migratory capital not so 'new' and 'strange', to stop it, if it is a question of profits. Capital everywhere finds – and if it does not find, then it creates – a 'fatherland' for itself. Shylock, representative of international capital, knows this perfectly, declaring at the court 'fie upon your law' if they do not provide him with payment for the bond.[346] And the court knows this, because it tacitly agrees with such a formulation of the question, although it is about protection of bourgeois rights of a member of a despised nationality (a Jewish-usurer).

3. Both of these arguments Ricardo prefaced with the words: '*Experience shows* that ...' and so on. The experience that prompted Ricardo's statement was the experience of the late eighteenth and early nineteenth century, when there was migration of capital, indeed, but still not as grandiose as at the end of the nineteenth or in our century. Even the sagacious

[346] ['If you deny me, fie upon your law! There is no force in the decrees of Venice'. *The Merchant of Venice*, Act IV, scene I. To be clear, it is Antonio who is the international merchant in the play: 'My ventures are not in one bottom trusted, Nor to one place; nor is my whole estate Upon the fortune of this present year: Therefore my merchandise makes me not sad', Act I, scene I. One of Antonio's vessels (from which incidentally we see merchants' investment went also into ships and payment of their crew) supposedly is lost ('miscarried') in the Dover Straights. If we jump to Petrov's later remark about absence of Venetians in England by the end of the sixteenth century, then we see that Shakespeare's story of one of Antonio's vessels visiting England was becoming outdated at the time of writing the play.]

Ricardo could therefore make an entirely wrong conclusion, – what to say about his other contemporaries. We cannot, of course, make this apology in respect of the later writers, let alone the theoreticians of our day. It seems to us quite unpardonable and strange, the belated Ricardianism of Dashkovsky, who develops the position that flows of capital in the world economy have only a one-sided direction (to the side of agrarian countries – entirely in the spirit of Kautsky) and that, thus, there is no unified law of value in the world economy.

J. S. Mill put forward his political economy three decades after Ricardo. In general, he stands entirely on the positions of the latter. But in formulating the point on obstacles to the levelling off of the rate of the profit, Mill is already more careful. He frankly recognises that '*capital is becoming more and more cosmopolitan*', that there is observed a trend to world levelling off of profits. 'There is so much greater similarity of manners and institutions than formerly, and so much less alienation of feeling, among the more civilized countries, that both population and capital now move from one of those countries to another on much less temptation than heretofore'.[347]

It was necessary to go through several more decades, so that even bourgeois scientists recognised the fact as it is.[348] The 'cosmopolitan'-minded free-traders managed this earlier than others. Hobson in 1904 in his work on international trade wrote on this question already in entirely different tones:

> It is a commonplace that capital is becoming cosmopolitan, that is to say, it flows with great freedom over national barriers into large fields of investment, not merely into public loans and into railways and other public or semi-public enterprises, but into a great variety of agricultural, manufacturing, and commercial businesses conducted for profit. [...] The cosmopolitanisation of labour, so far as certain large labour markets are concerned, does not lag far behind.
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> The spread of knowledge and the facilities of modern carriage have greatly abated the force of Adam Smith's dictum that "man is of all baggage the most difficult of transport". Common or unskilled male labour has acquired immensely increased mobility within the last three decades. Such widely diverse peoples as Irish, Scandinavians, Slavs, Italians, Germans, Malays, Chinese, have exhibited so keen a

[347] Mill 1909, p. 575.

[348] [Petrov's presentation of the classics can be challenged: 'Inasmuch as this was an epoch of great international emigration and investment, Smith, Ricardo and Mill would have been derided [by their contemporaries] had they clung to the extreme assertions attributed to them by [later economic historians like] Viner, Haberler and their post-classical followers' (Hudson 2009, p. 227). Even Petrov himself will shortly write that Ricardo's belief in capital flight due to high taxes, assumes capital mobility.]

> capacity of migration as largely to equalise over considerable tracts of the earth the conditions of the low-skilled labour market. [...]
>
> So far as the older European countries are concerned, the transferability of either capital or labour among them is as yet very slight, affecting a very little proportion of the whole field of production; but the new world of North and South America, South Africa, and Australasia, and some backward parts of the old world, now submitted to swift development, form huge areas of cosmopolitan industry.[349]

Perfectly correctly stating the fact of general mobility capital and labour, a fact that has become one of the basic features of imperialism,[350] Hobson remained 'true to himself' and drew a conclusion, far beyond the premise. He deduced the pacifist–free-trade character of the conclusion, that this 'cosmopolitanism' is 'breaking through the old national limits' and destroys the spirit of national exclusiveness.[351] Thus, an inflection in the opposite direction is allowed: '*internationalism*' of capital, always and especially in our century resolutely based on 'its' national economy, is mixed in the most serious way with '*cosmopolitanism*', which is depicted as a necessary trend. Meanwhile, national borders – are a fact and a fact of paramount importance. *Their presence and increasing importance should be explained precisely on the basis of the general mobility of capital, labour, commodities, commodity- and capital-owners themselves*, in one word on the basis of capitalist production relations. Exactly in this lies the task.

The position of modern protectionists in the question of the 'nation' is undoubtedly difficult. They no longer can rely on Ricardo's arguments about the immobility of capital and labour – the facts do not consent. Meanwhile for protectionist 'theory' the thesis is required that each country represents by itself a unit in the world economy. This thesis is simply proclaimed without hampering either themselves, or the readers, with arguments.

Recently came out the 'work' of the Romanian economist Manoilescu *The Theory of Protection and International Trade*. Under the characteristic heading: 'Each country as an economic unit' is given exactly such a declaration which we just depicted. For reasons of economy of place, we omit quotations, inviting the reader to turn to the original source.[352]

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[349] Hobson 1904, pp. 46–8. However, other economists, for example Nicholson, continue to repeat the former 'truths' in such, for example, spirit: 'When we consider two or more nations, and contrast them with the districts in the same country, the essential difference for pure theory is that between the foreign countries capital and labour will not move at all or only with great difficulty' (1897, pp. 295–96).

[350] See Lenin 1917. [Note that Petrov just quoted not from Hobson's 1902 book on imperialism, but rather from Hobson's 1904 book on international trade.]

[351] [See Hobson 1904, p. 172.]

[352] Manoilescu 1929, pp. 85–6 [Manoilsecu 1931, p. 61]. See our review [Petrov 1930b].

Here we will give place to a much more interesting, in our opinion, exposition, demonstrating how extremes sometimes converge. In the Marxist journal *Voprosy Ekonomiki*, published in Kharkov, appeared the article of Akulenko 'The Problem of World Economy'. The author stands on Bukharin's positions on the issue of the transformation of modern national economies into 'state-capitalist trusts'. For example, he says: 'The structure of national economies long already (!? *N.P.*) is not a molecular-anarchic type due to trustification and combination of companies with others'. This thought Akulenko obstinately and often repeats at different places in his article.

We are not at all surprised that the same Akulenko turns out to be completely on the platform of Ricardo–Mill in the question of the mobility of capital and labour in the world economy. He writes as follows:

> In the world [...] economy we meet an almost insurmountable obstacle on the path of mass movement of population from one country to another, an obstacle conditioned by both the heterogeneous aspects of socio-cultural character (different languages, customs, and so on), and the lack of a single political organisation of the world economy (!? *N.P.*). Therefore, the law of alignment of wages almost does not take place in the world economy, hence the different standard of living of the same classes in different countries.[353]

Akulenko recognises that factors that, in his opinion, condition the international division of labour and international trade and which in him are almost completely reduced to purely-geographical, natural-historical, natural moments, successfully operate as well also within individual national economies, that is, represents itself nothing *specific* for the explained phenomena. However, he does not see that this acknowledgement reduces his entire argumentation to naught.

He also does not notice that he himself gives a quote from Marx, which directly indicates, that the difference that arises in the process of creating value in different countries due to different productivity of their labour, does not constitute a specific feature of international exchange as such.

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[353] Akulenko 1928, pp. 108, 111. [Akulenko (1899–1950), contributor to *Gospodarstvo Ukraïni*. See full biographical note in Ponomarenko 2005, pp. 250–1.]

> Capital invested in foreign trade can yield a higher rate of profit, firstly, because it competes with commodities produced by other countries with less developed production facilities, so that the more advanced country sells its goods above their value, even though still more cheaply than its competitors. In so far as the labour of the more advanced country is valorized here as labour of a higher specific weight, the profit rate rises, since labour that is not paid as qualitatively higher is nevertheless sold as such. The same relationship may hold towards the country to which goods are exported and from which goods are imported: i.e. such a country gives more objectified labour *in kind* than it receives, even though it still receives the goods in question more cheaply than it could produce them itself. *In the same way, a manufacturer who makes use of a new discovery before this has become general sells more cheaply than his competitors and yet still sells above the individual value of his commodity, valorizing the specifically higher productivity of the labour he employs as surplus labour*. He thus realizes a surplus profit.[354]

Hence the fact, that some countries receive from international trade higher profits than others, covers not something specific for international trade as such. The 'higher profit' of the advanced country is not in general the 'profit of the country', but is a sum profit of a group of manufacturers who live in the given country. *Their high profit is not explained by the fact that they live in the given country, but only in that they have a more perfect technique of production and so on*. Among the entrepreneurs of the same country there may be with very backward equipment, who, therefore, do not at all take part in the 'higher profit of the country'. And in a backward country one can also meet companies that are equipped with the latest technology and deliver profits to their owners no less than those obtained in advanced countries.

Let us return to Ricardo. Let us state that 'experience' failed him. It proved a bad adviser precisely because it acted as an antagonist of theory. Instead of combining theory with practice we see in Ricardo the gap between them, the substitution of the first by the second, *the transition from scientific theory unto the position of naked empiricism*. Therefore, also the whole 'theory' of foreign trade was on a shaky foundation.

It would seem that Ricardo should have, even in case of the correctness of all the given premises, drawn only one conclusion: since the transfer of capital abroad is accompanied by 'fancied' or 'real' risk, since herewith the capitalist needs to overcome his 'natural

[354] Marx 1981 pp. 344–45; emphasis mine. N.P.

disinclination', that the difference in the rate of profit at home and abroad must each time reach a certain size before the export of capital became possible. This difference should 'reward' the capitalist for the risk, 'disinclination' and other 'reluctance', but it must inevitably be more or less the same for all entrepreneurs of the given country. *Once such a difference in the rate of profit would have been created, there would begin a free transfer of capital abroad*.

Already Marx noticed that Ricardo often contradicts himself. So also in this matter. When it seems to him necessary to mobilise arguments against state taxes, *he admits the possibility of capital migration*. 'The temptation to remove himself and his capital to another country, where he will be exempted from such burdens (from heavy taxes. N.P.), becomes at last irresistible, and overcomes the natural reluctance which every man feels to quit the place of his birth, and the scene of his early associations'.[355] And a few lines below: '[...] there are limits to the price, which in the form of perpetual taxation, individuals will submit to pay for the privilege merely of living in their native country'.[356] Hence the whole matter lies in quantity, degree, and not in principle.

What prevented Ricardo from extending the action of the law of value to international trade and the international movement of capital? A purely-fetishist representation of 'trading nation', of the capitalist national economy as something separate not only psychologically, subjectively, but even climatically, geographically, natural- and cultural-historically, and so on. It is not at all an accident that in one note *Ricardo compares the relationship of trading countries with the relationship of individuals of exchange society*.

> [A] country possessing very considerable advantages in machinery and skill, and which may therefore be enabled to manufacture commodities with much less labour than her neighbours, may, in return for such commodities, import a portion of the corn required for its consumption, even if its land were more fertile, and corn could be grown with less labour than in the country from which it was imported. Two men can both make shoes and hats, and one is superior to the other in both employments; but in making hats, he can only exceed his competitor by one-fifth or 20 per cent, and in making shoes he can excel him by one-third or 33 per cent; – will it not be for the interest of both, that the superior man should employ himself exclusively in making shoes, and the inferior man in making hats?[357]

[355] Ricardo 1821, p. 287.
[356] Ricardo 1821, p. 289.
[357] Ricardo 1821, p. 142.

The fetishist interpretation of the concept of 'trading country', as something like an individual, made Ricardo fundamentally recast also the *theory of money* developed by him in the first six chapters of *Principles*.

> In the former part of this work, – says Ricardo, – we have assumed, for the purpose of argument, that money always continued of the same value; we are now endeavouring to show that besides the ordinary variations in the value of money, and those which are common to the whole commercial world, there are also partial variations to which money is subject in particular countries; and to the fact, that the value of money is never the same in any two countries, depending as it does on relative taxation, on manufacture skill, on the advantage of climate, natural productions, and many other causes.[358]

It would be easy to show (and in general courses of political economy this is done), that one of Ricardo's mistakes is the mixing of various functions of money among themselves, as well as the ndiscernibility of money as a means of circulation from money as a form of capital. In particular, in Ricardo things are very bad on the difference between 'national money' (coins and different tokens of value, including paper) and world money (gold and silver in ingots). Much could be said about these and other contradictions in the views of Ricardo. However, we are not interested in this for now. We are interested in Ricardo's teaching about money in connection with his representation of national economy.

The reasons, according to Ricardo, for the mismatch of the value of money in different countries, boil down to the difference: 1) in the system of taxation, 2) in manufacture skill 3) in climate and natural resources, finally, 4) to the difference in distances of countries from the place of extraction of gold and silver, and so on. Between reasons of an economic order and other reasons (climate, natural wealth, geographical location, and so on), here is put up an 'equal sign'. Meanwhile, only the difference in the tax system is characteristic of countries as such. As for the other reasons, for different regions of one big country they should be 'valid' to the same extent as for different countries. Yet in fact we do not talk about a difference of the value of money in Prussia and Bavaria, in Texas and New York, in Moscow and Transcaucasia. But after all, on the basis of the premise of Ricardo one would have to

[358] Ricardo 1821, pp. 151–52.

admit that within one country the value of money just as easily fluctuates from district to district, as at the international scale.
Giving an overview of the critical objections against the aforementioned viewpoint of the classics, Angell, among other things, gives suchlike:

> To the distinction between international trade and internal trade, it has been objected that the differences are wholly quantitative, not qualitative; that they are not of kind, but only of degree. An example of such differences is provided by the greater costs of international transportation, and by tariffs. [...] As to the immobility of labor and capital, it is pointed out that this immobility can be ascribed quite as correctly to internal as to international trade. The immobility is simply somewhat greater, as a rule, in the latter case. None of these essentially quantitative differences are admitted as a sufficient ground for a separate theory of international trade and values. If any distinction is to be made at all, it should be a distinction between different markets, whether in the same or in different countries.[359]

Angell not without justification points out how on the score of such a large inconsistency of Ricardo (and generally the classics), when they pass to the questions of *international trade*, that they treat the latter as only subjective, *only as foreign trade of their [own] country*. In other words, that they stand not on the world-economic, but on a national-economic viewpoint. Angell says:

> It can fairly be said [...] that the classical writers never worked [on] a complete theory of international prices, as such. Their chief interest lay in the problem of national gains or losses from foreign trade, and from the manner in which it is conducted. They dealt with international values as subsidiary to this more central theme, and therefore treated such values primarily from the point of view of national productive power, — days of labor, — not from that of money prices and price structures.[360]

So, the theoretical position of the classics and their willing or involuntary followers in matters of national and world economy is characterised:
1) by assuming, as decisive, 'eternal', ahistorical moments;

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[359] Angell 1926, p. 366.
[360] Angell 1926, p. 364.

2) by introducing into study subjectivism, subjective-national viewpoints;
3) by subordination of study to empiricism, naked 'experience', inability to provide a theory inseparably linked with practice, the gap between them and the resulting inevitable eclecticism;
4) by forgetting or underestimating what is the sole and decisive, – namely the production relations of capitalist society.
The phenomenon of the national economy cannot be understood on a different basis, than on the basis of social relations. They also are what we should be engaged with.

3. The emergence of trade and its division into foreign and domestic

Pre-capitalist history of mankind knows numerous and various social formations, as well as complex aggregates of them. Let us enumerate the main: natural economy, economy with weakly developed exchange, exchange economy with weakly developed capitalist relations; patriarchal clans, feudal and serf estates, craft towns of the Middle Ages, peasant communities and so on. Many of them are characterised by *significant closedness in itself*. The clan, the community, the city – for themselves are a whole world, 'cosmos'. What is done beyond their outskirts, is more or less 'no business' to them, unless suddenly a military invasion will appear. And only merchant capital, by its very nature alien to them, travels around. Only a few spots of the earthly sphere – Hanseatic cities, Venice, Genoa, eastern cities, and so on – it can consider its homeland. Generally speaking, it is cosmopolitan. In distinction to the peasant 'little world' in confined outskirts, the world in the representation of the merchant is the universe within the known to him limits, a cosmos without inverted commas. *Ubi bene, ibi patria* – 'where it is good, there is my fatherland' – such was his confession.
Exchange of commodities emerged initially where the community ends, at points of contact with foreign communities or with members of foreign communities, 'where communities have their boundaries'. 'The development of products into commodities arises from exchange between different communities and not between the members of one and the same community'.[361]

[361] Marx 1976b, p. 182. Marx 1981, p. 278. Compare Engels: 'Law of Value and Rate of Profit' [addendum to volume 3 of *Capital*].

The intermediary role of merchant capital initially changed nothing. 'The trading peoples of old existed like the gods of Epicurus in the *intermundia*, or like the Jews in the pores Polish society. The trade of the first independent and highly developed trading cities and peoples, as a pure carrying trade, rested on the barbarism of the producing peoples between whom they acted as intermediaries'.[362]

Merchant capital largely serves the 'representatives of consumptive wealth', all those who appropriate alien surplus product and seek to give the latter either a more preservable and easier to realise form, or to turn it into objects of direct consumption. Accordingly, trade in those times essentially focused on luxury goods – wine, weapons, furs, spices, fine fabrics and so on, in contrast to our modern trade, which has as object products of mass consumption – bread, cotton, coal and so on.

To put it somewhat paradoxically, trade initially arose as 'foreign trade' and for a long time remained such. However, this was 'foreign trade' not at all in our sense of the word. The economies, for which it was, if you will, 'foreign', were themselves still natural or semi-natural and *no 'internal' trade, in contrast from the above 'foreign' trade existed*.

However, it took only time to decompose the natural social relations of antiquity and the Middle Ages and put their members in an exchange relationship to each other.

The penetration of exchange at the beginning in the hitherto natural society and the accelerating growth of the market did not immediately lead to a split of the latter into an 'external' and 'internal' one. In place of the previous natural aggregate, let us say, the community has become a sum of individual households, working on the market. But to each of them for a long time it was relatively indifferent with what kind of counterparties it dealt – with compatriots or foreigners. The very concept of 'compatriot' was not yet clear, it had not yet evolved on the basis of production relations of exchange society, this happened only much later.

The interest of the individual owner was now concentrated on the transformation of the commodity into money, and money again in a commodity, representing for him use value. This meant – with a sale, to gain the maximum price, when buying, to pay as cheaply as possible for the best product. The opportunity to get as high a price as possible is easier with the presence of numerous buyers. The opportunity to acquire a commodity at the lowest price and the best quality was greatest with many sellers. Unlike the capitalist employer the medieval commodity producer, as well as every layer living at the expense of surplus product, did not have any incentive of detaching and fencing off 'his own', 'internal' market

[362] Marx 1981, pp. 447–48.

from the foreign one. On the contrary, to the economic interests of such an economic way of life sooner corresponded a *cosmopolitan worldview* in the simple sense of this word (not at all how this expression is used in relation to the free traders of the nineteenth century).

Representatives of 'consumptive wealth' (feudal lords, clergy, slave-owners, military, and so on), as we have said, were least likely to tend to the isolation of the 'domestic' from the world market. If customs duties were taken from merchants, they were taken not at the entrance to this or that country, but more often – at bridges, ferries, at castles and were purely-fiscal measures. Quite often we meet in the Middle Ages striking examples of 'protectionism on the wrong side': for example, the Moscow tsar willingly and knowingly gave Hanseatic, Dutch, English merchants privileges in comparison with the natives.

Even less inclined to become confined to one or another country was merchant capital. If we also meet in the Middle Ages merchant 'nations' in Constantinople, Alexandria and elsewhere, it is only like with the formation of a *professional-compatriot type*. English merchants formed in this market, let us say, in Alexandria, one 'nation', the German – another, the Venetian – a third and so on, for the purposes of creating the best conditions for working *abroad, not at their home*.[363] The creation of these isolated 'nations' meant just as little economic isolation of the respective countries, as, say, the formation of the Hanseatic League, which united a number of merchant city-republics of Northern Europe. The Hansa included along with German cities also Scandinavian and Russian ones. – Yes, also in our days merchant capital, insofar as it still has composition and manifests aptitude to an own trading policy, is primarily [in favour of] free-trade.

So, right up to the end of the Middle Ages the market was 'cosmopolitan' in full accordance with the interests of all major economic forces. A more or less high degree of isolation we find only in the crafts cities with guild systems.[364] This was, of course, some prototype of the modern 'nation', but a prototype still very far away.

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[363] Engels in Marx 1981. [On the presence of a 'Netherlandish' nation (*nazione fiamminga*) in early modern Venice, see van Gelder 2009.]

[364] [Bruges's loss of commercial hegemony is attributed, for example, to restrictive guild policies. 'The urban cloth guilds, unlike their English counterparts, controlled not only the town governments, but, through them, the countryside'. [...] Flemish commercial policy [...] had continuously and effectively enforced a total ban on English cloth from at least the 1350s' (Munro 1966, pp. 1139, 1145). '[W]e plainly see, how laying on too high duties was what removed good part of the manufacturies of Flanders into Brabant, and from that province into those beyond the Maese, and into England' (Huet 1719, p. 8, who only repeats de La Court and de Witt 1702 [1662], pp. 47–8, 434–5).

'In the fifteenth century [the Southern Netherlands] already came to the threshold of capitalism, they had a numerous proletariat. If the ruling classes – nobility and urban patricians – had wanted to struggle with full force against absolutism, then they needed to make the proletariat battle-ready. For this they lacked the courage' (Kautsky 1917, p. 52).]

Trade of the Middle Ages did not occur, of course, in a 'vacuum', in a territory that does not have any state borders. On the contrary, there were very many of these borders, much more than in the era of industrial capital, and, moreover, all these boundaries were sometimes, not less, but *more* tangible than in our days. The entire cultural world was divided between large and small states of feudalism. And duties and levies of all kinds were raised not only at state borders. In the middle of the thirteenth century, says Cunow, ships descending the Rhine only on one segment between Basel to Cologne passed no less than forty custom posts, established for the collection of fees by owners of both banks of the river. The journey along the river Main of some 270 kilometres in 1520 meant a travel through seventeen possessions of various 'sovereigns' and inspection at 27 customs offices, that is approximately every 10 kilometres.[365] In a word, the state was regarded as (and in fact was) *alien* to capital institutions, its form (fractionality and stratification of fiefs) and policy (collection of fiscal duties) were directly *harmful* from the viewpoint of capital.

However already at the dawn of the formation of industrial capitalism a certain change in the feudal state is observed, and this change happens not without the well-known influence of commercial capital. In the course of time the absolute monarchy unites under itself a *large territory* – let us recall France, Russia. States gradually grow stronger as national-territorial units. State action ever more often puts forward its task of the displacement of subsistence economy and its replacement with money. The process of deepening exchange relations happens increasingly more intensively (and, of course, not politics makes it, but it makes politics). However, we still do not see a 'national state' in the modern bourgeois sense of the word.

The 'quantitative' development of exchange relations should have led to the 'qualitative' change in them, to a transformation of various types of pre-capitalist modes of production into the capitalist one *through the process of primitive accumulation*. One of the most important instruments of primitive accumulation was the state itself, gradually going in the service of capital. Initially, capital was to 'take' the state as it is, with all its feudal or serf attributes, and only gradually adapt them to itself. This, of course, could not satisfy it, and we see in the countries of most developed capitalist relations a series of bourgeois revolutions (1642 in England, 1789 in France).

The concept of 'nationality' in our sense of the word was definitively shaped only when the class of the industrial bourgeoisie comes to power, or at least to social influence. In the era of feudalism this concept is only just beginning to take shape.

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[365] Cunow 1929, p. 153.

Karl Kautsky is not entirely right when he explains the emergence of the national state by the interests of trade. As we have seen, trade itself on its own pushes to cosmopolitanism rather than to nationality. *Only the production of surplus value and its distribution are able to truly put the bourgeoisie on national rails*.
In one of Kautsky's works there is such a characterisation of the process:

> In the Middle Ages we find a narrow particularism, a parochial outlook side by side with a cosmopolitanism which comprised the whole of Western Christendom. The feeling of nationality was therefore very weak.
>
> The merchant cannot confine himself to a small district as the peasant or artisan can. He wants the whole world in which to sell his goods. In contrast to the guild citizen, who may never pass beyond the walls of his town, we find the merchant untiring in his journeys to unknown countries. He passes beyond the boundaries of Europe, and inaugurates an epoch of discoveries which culminates in revealing the sea route to India and the discovery of America, and which, strictly speaking, is still going on to-day [1888]. Even to-day it is the merchant who gives the impulse to most voyages of discovery, and not the scientific investigator. [...] Commerce put in place of local ties a cosmopolitan feeling which was at home wherever a profit could be earned. At the same time it set up *nationality* against the *universality* of the Church. World trade widened the horizon of the Western peoples far beyond the region of the Catholic Church, and simultaneously narrowed it within the sphere of their own nation. This sounds paradoxical, but it is easy to explain. The small, self-sufficing communities of the Middle Ages were scarcely, if at all, in economic antagonism with each other. Within these communities there were indeed antagonisms, but the outside world was regarded with indifference, provided it did not disturb the communities. For the great merchant, on the other hand, it is not a matter of indifference what relations the community to which he belongs has to the outside world. Trading profit arises from buying as cheap and selling as dear as possible. Profits largely depend upon the relative strength of buyers and sellers. [...] With trade, however, competition arose among buyers as well as sellers. In the foreign market these antagonisms became national antagonisms.[366]

[366] Kautsky 1927, pp. 12–3.

Kautsky does not observe that the 'nations' arising on the basis of the action of commercial capital in the absence of a still to be developed industrial bourgeoisie, at heart are very conditional 'nations', those, that are described by Engels in the article 'Law of Value and Rate of Profit' and whose activities entirely proceed in foreign countries, and not at home.[367]

A completely different picture was obtained after the completion, at least basically, of the process of primitive accumulation. Now the matter of the creation of national states quickly moved forward. The proletarianisation of broad masses of hitherto independent population awakened the bourgeoisie's appetite for the domestic market. First of all, the mystery was revealed that it is not enough to *produce* surplus value, it is still necessary to *realise* and *distribute* it, and that in the area of distribution, the state and its economic policy play no small role. Further it was revealed that the proletarian of the 'fatherland' is a very solid and interesting buyer, although he was a lot of times poorer than the independent artisan or peasant. Then it turned out that production of surplus value, that is the exploitation of this proletarian, as labour force on manufacture, plant and factory, is impossible to fully implement, if not simultaneous measures are taken so that other commodity producers, foreigners, do not capture the internal market with their products.

Thus, *the concept of the internal market was born in the struggle for the production of surplus value and its distribution*. Only from this moment is also born the concept of the foreign market. Both, therefore, are interrelated, correlative concepts, more precisely – poles of a single whole, the contradictory capitalist mode of production. Only now, when trade is divided into external and internal, does the problem of 'nation', 'national interests' 'national economy' become an urgent problem of society.

We emphasise once more: the domestic market is separated much later than the emergence of widely developed 'cosmopolitan' (one cannot yet say 'international') trade. The capitalist 'nation', with its 'foreign' and 'domestic' trade is formed as a result of the long-term development and deepening of exchange relations. The domestic market represents by itself nothing else as one of the sectors of the world market, isolated through economic measures of state power.

With the formation of domestic markets world exchange does not acquire some special character, does not change in its principle. It, as earlier, obeys the law of value. This law of value governs all processes of exchange also after the formation of national sectors of the world economy. The economic policy of the national state will give us a further deviation of prices from values, but does not at all require the introduction of any new laws, that are

[367][See Engels in Marx 1981. Such as the Venetians, Genoese or Hanseatics.]

fundamentally different from the law of value, or two laws of value as Dashkovsky thinks. Already from this we see how little foundation the attempts of bourgeois economists have to build the theory of international exchange on different principles than the theory of domestic exchange.

The pursuit of the foreign market and the very consciousness of the foreign market, in distinction from the domestic, is subjectively coloured by the interests of the groups of capitalists of the given country. *Practically* it means the pursuit for equal rates of profit. The Narodniks, Rosa Luxemburg and others did not at all understand the origin of the national economy and made a gross mistake, theoretically explaining the origin of the external market by the *laws of realisation* of surplus value. The conviction of the impossibility of the existence of capitalism without a foreign market is at the same time the conviction that the foreign market is formed later, than the internal one.

Responding to the Narodniks, Lenin wrote on this question:

> The need for a capitalist country to have a foreign market is not determined at all by the laws of the realisation of the social product (and of surplus-value in particular), but, firstly, by the fact that capitalism makes its appearance only as a result of widely developed commodity *circulation*, which transcends the limits of the state. It is therefore impossible to conceive a capitalist nation without foreign trade, nor is there any such nation.
>
> As the reader sees, this reason is of a historical order.[368]

There is (and was) no such a nation, which would not have foreign trade. The nation and 'national' capitalism are the result of widely developed commodity circulation, which does not bother with state borders, which itself created them. Therefore, the grossest mistake is made by all, who, like Bukharin, Spektator and so on, believe that first there was the domestic market, and then, gradually, the world market. On the contrary, not only the world market, but capital was originally cosmopolitan, not knowing national borders.

Adaptation of the national state, the 'superstructure', to the interests of the dominant production relations, the 'base', occurs historically later and is derivative. This arrangement and mutual penetration is a very complex dialectical process, which it is not easy to understand. Is it any wonder that it was not given, by the way, also to Struve, who in one place assures us:

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[368] Lenin 1899, p. 65.

'One cannot emphasise sharply enough that the interpretation about the national-economic organism forgets, that the national economy, as a whole, is a 'system' and that this 'system', this plexus can exist independently of any sort of political relations, that the confinement of political relations to an economic cohesion is a *new* moment and principally extraneous of the national-economic cohesion as such'.[369]

Let us leave aside the Struvian 'system', formulated by him even earlier in the work *Economy and Price*.[370] Let us pay attention to the purely-mechanical and metaphysical treatment of the question about the interrelation between 'economic cohesion' and 'political relations'. According to Struve this interrelation is a 'new moment and principally extraneous of the national-economic cohesion as such'. Before us – is not a 'superstructure', growing up on a determined 'base', not an interaction between two parts of a dialectical unity, before us – is a cross coupling of two 'principally extraneous' moments, mechanically impacting one another.

Even less understanding of the question and just as little dialectics in the statements of Herzenstein:

> The capitalist process begins its historical movement with the external market – regardless whether it be foreign demand or the demand of petty producers within the country, – then concentrates on the creation of its domestic market, as a composite sector, forming due to the progressive denaturalisation of the economy a national market, and again rushes to the external market in its wide world-economic scale. This is the three-phase evolution of capitalist production of each country, reflected in a pattern-like change in the relation of domestic and foreign demand for commodity elements of the reproduction of national capital.[371]

A pseudo-Hegelian 'triad', whether considered from the side of content or form. Even if we leave aside the stilted language, which shows itself not only in this quote but in the whole book ('denaturalisation of the economy ... market'!),[372] we notice in Herzenstein a bizarre combination of several arias from completely different operas. The treatment of the external market is borrowed from Rosa Luxemburg ('regardless whether it be foreign demand or the demand of petty producers within the country'). From Marx is scrambled also the

[369] Struve 1915, p. 6.
[370] [Struve 1913.]
[371] Herzenstein 1928, pp. 168, 169.
[372] [We fail to see Petrov's issue with this formulation.]

misrepresented idea that exchange originally occurs 'where communities have their boundaries' and only in the course of time, under its influence, are natural relations of society decomposed (in Herzenstein: 'The capitalist process begins its history with the external market'!). To Herzenstein himself here belongs only the uncritical and in his mouth meaningless use of the concept of 'country' and the belief that the foreign market emerges historically before the domestic one.

Almost the same mistake we find in Dashkovsky who builds, roughly, the same 'three-phase' scheme:

> The development of international economic relations is a kind of dialectical process. As is known, exchange and trade historically occur 'where communities have their boundaries'. International, intertribal trade is the starting point of the development of exchange, with which also develops the capitalist economy. Later on, capitalism gradually clears for itself a required 'field of exploitation' inside the country, disintegrating the remnants of the natural order, paving the way of commodity economy throughout and transforming the latter into capitalist economy. During this period there occurs an intensive 'formation of the internal market' for capitalism. When this work is done in enough depth and breadth, there comes the turn again of international exchange, on no longer primitive foundations, but on the basis of large-scale production and manufacture technology. Capitalism 'pulls' all nations one after the other into the world economic orbit. The epoch of world economy arrives.[373]

The thoughtlessness of the whole problem in Dashkovsky is reflected, by the way, in the last sentence of the quotation. He should have said: 'The modern phase of the world economy arrives' – this would be both in accord with the Marxist way, and in agreement with the previous statements. But he announced that what arrives is the 'epoch' of world economy. Apparently, Dashkovsky thinks, that economic development at first takes the 'step' of 'national economy', existing in anything but [not] a world economy, and only afterwards it rises to the 'step' of world economy.

To both authors, Herzenstein and Dashkovsky, is alien the understanding that the emergence of the world economy, in particular – foreign and domestic trade should be explained first in principle, from the *qualitative* side, after which it will be easy to understand the extremely fast and effective *quantitative* growth of both national and world

[373] Dashkovsky 1927a.

economic relations. Based on this quantitative growth afterwards, in its own turn, there occur *qualitative* changes. One of these new 'qualities' is the modern world economy, the *world economy of the epoch of imperialism*.

4. Some characteristic features of the national state

In volume one of *Capital* we find the following remark:

> The rising bourgeoisie needs the power of the state, and uses it to 'regulate' wages, i.e. to force them into the limits suitable for making a profit, to lengthen the working day, and to keep the worker himself at his normal level of dependence. This is an essential aspect of so-called primitive accumulation.[374]

As we see, the emergence of the bourgeois mode of production by itself means the emergence of the bourgeois state corresponding to it. Therefore, we must consider also that the process of the creation of the 'nation' really begins only at the same time as the process of primitive accumulation. However, it long proceeds in attempts to adapt the still alien to each other 'base' and 'superstructure'. First, capitalist relations are forced to adapt to the then existing state, then – the feudal and serfdom state increasingly turns to the service of the interests of capital. The first thing we find, for example, is that capital has to operate in conditions of extreme fragmentation of the territorial authorities, a diversity of laws and taxes, and so on. This includes such a phenomenon as the large prevalence of monopolies, issued by the state on the trade of particular commodities. No less often we meet with measures of gradual, voluntary or involuntary, conscious or not, adaptation of the feudal state to the needs and interests of capital. The reader will find numerous sections about legislation in volume one of *Capital*.

The state however is a class institution. A ruling class does not give up its power to another without a fight. Halfway concessions never satisfy anyone, especially a class that comes to power. Sooner or later, it passes to violent actions, to *revolution*.

Only the English Revolution of 1642–49. and French – 1789 – set the stage of the *powerful movement in favour of national-bourgeois states*.

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[374] Marx 1976, pp. 899–900.

> Since the end of the Middle Ages, – says Engels, – history has been working towards a Europe composed of large national states. Only such states are the normal political constitution of the ruling European bourgeoisie and, at the same time, an indispensable precondition for the establishment of harmonious international co-operation between peoples, without which the rule of the proletariat is impossible. [...] With the advance of commerce, agriculture, industry and thereby of the social position of power enjoyed by the bourgeoisie, national feeling rose everywhere and partitioned and oppressed nations demanded unity and independence. Hence the 1848 revolution was aimed everywhere except in France at satisfying national demands just as much as the demand for freedom.[375]

The bourgeois state, like every state, is a class institution, standing as if over society. It 'arose from the need to hold class antagonisms in check' (Engels [*The Origin of* ...]). 'Nation', 'people', 'democracy', that is *bourgeois society designed as a state, are a means of maintaining and preserving the relations of labour to capital, relations of exploitation*. The pursuit for the fullest possible exploitation of the working class, by the way, turns into a form of struggle with foreign capitalists for the 'national' interests, for the domestic market and so on.

Another important function performed by the bourgeois state is to ensure the conditions for 'normal' reproduction of capitalist relations, that is *reproduction in the most extended scale possible*. What can prevent this? One of the most important hindrances and threats is the incompletely broken feudalism, let us say, in a neighbouring country. It represents a constant danger, sometimes turning into a real attack, and the bourgeois state conducts against it a 'national-liberation' war. Often (but not always) it also is actually a struggle of progress, the new, even revolutionary, against the old, obsolete, reactionary.

There is nothing more wrong than imagining a 'pure capitalism' according to a standard type developing on the wreckage of feudalism. The law of uneven development of capitalism is expressed, among other things, in the fact that the interaction of 'base' and 'superstructure' in the form of national states in different corners of the globe takes place in completely different ways. Therefore, also the 'national-liberation war' in different epochs and among different peoples does not proceed similarly. For example, the modern national-liberation movement in India, China, Turkey and so on, are directed not against feudalism (insofar as it a matter of foreign enemies), but against decaying capitalism, against imperialism.

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[375] Engels 1990, pp. 455–56.

We must warn that the guise of 'national-liberation' wars was deliberately thrown over the modern imperialist war by the apologists of imperialism and the social-compromisers. The German imperialists in 1914–18 shouted about the need to free themselves from danger on the part of barbarous Russia, the English and French – about the danger from the side of the German semi-feudal military and so on. Lenin tirelessly emphasised the false nature of such assertions.

The existing capitalist 'national economies' pursue extended reproduction often also by the method of appropriation of territories, whose population still lives in pre-capitalist relations. This happens in the form of colonial captures, division and redistribution of the world between the largest powers. Here too the bourgeois state plays a decisive role.

Thus, the modern 'trading nation' is separated from the rest of the world not at all due to climatic, geographic and other ahistorical reasons, and neither due to religious, cultural, racial factors and so on, but exclusively under the pressure of capitalist interests, which themselves are the products of widely developed commodity production and the corresponding to it world exchange. Now we see how far from the truth Ricardo and Mill, Cairnes and Bastable and the whole rest of the bourgeois theoretical world get, when they engage in the formulation of the foundational premises of their theory of foreign trade.

Even more absurd are the assertions of protectionists like Manoilescu, who entirely without argument claim, that every 'nation' is a 'unity'.[376] No state is such an economic unity, which assumes some kind of 'economic subject'. In the national states of our day, we find only one unity – the unity of the conditions of capitalist exploitation. This means that within a capitalist country there should be no custom borders, that the legal and tax systems should be unified in the greatest degree, that within the country should flourish the fullest possible 'freedom of trade'. As for the external world, then from it it is necessary to isolate as much as possible by the system of protective tariffs.

Territory or, more precisely, *state borders did not always represent such a much-needed attribute for the state like we see this in capitalist society*. For example, the ancient city–state embraced citizens of the city whose land and slaves were often far beyond the city. While the territory to which the power of the city of Rome was extended also was difficult to identify: it was so wide and in places the circle of its subjects which paid tribute was unstable. Although the feudal state also was based on territory – the ancestral lands, for the patrimonial serf-owner [however] the size of his state was measured by the number of peasant souls, who paid tribute. The subjected peasants themselves expressed this in the

[376] Manoilescu 1929.

words: 'we are yours, but our land is ours'. The feudal state was a type of 'state of states' without a special unity. That unity of territory was prepared by absolutism, but to the end it was brought only by the bourgeois revolution. Only it declared the borders of the state (as well as the borders of its property) 'sacred', 'inviolable'. Only now the state borders become 'natural' frontiers of national-bourgeois exploitation.[377]

Unity of territory, this most significant moment of the modern national state, is strengthened by the establishment of a network of roads, canals and railways. Internal economic policy goes hand in hand with the foreign.

The feudal state did not need such a unity of territory and such connection of its separate parts among themselves. Its separate areas could (and in most cases were) economically independent one from another. Basically, they were self-sufficient. The feudal prince could stand at the head of possessions scattered throughout the most diverse regions. So, for example, the Habsburgs up to the nineteenth century owned several areas in Baden and Württemberg, the Hohenzollerns – in Switzerland. The administrative division of modern (post-war!) Germany continues to carry a lot of traces of this intersection and fragmentation of former feudal lords, out of which Germany was formed. They could not be erased in the national-unification movement of the nineteenth century, nor by the revolutionary events which took place after the imperialist war.

The economic (in the first place, customs) border, as a rule, coincides with the political border of the bourgeois state. However, this does not always happen. There are exceptions to this general rule, exceptions which, as is no wonder, sometimes are directly dictated by the interests of capital. Such, for example, detachments of the general custom borders of a country are the so-called '*free ports*'. In the last quarter of the past century, that is just in the period of development of 'offensive protectionism', a whole number of free ports were established in Germany, Austria-Hungary, Denmark: Hamburg (since 1882), Bremen (1888), Stettin (1896), Danzig (1901), Trieste (1891), Copenhagen (1894), and others.

In the period after the imperialist war of 1914 the number of free ports increases even more. Sweden establishes free ports in Gothenburg, Malmö and Stockholm, Spain – in Cadiz, Barcelona and Bilbao. The Versailles Treaty entrusted on Germany the obligation to maintain free ports in all harbours where they existed on 1 August 1914. But this compulsory point of the Versailles Treaty was superfluous, since Germany began to establish even new free ports: in Königsberg, Kiel and other places. The work on the setup of free ports was recently launched in Reval and Libau.

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[377] Stuchka 1930, p. 513.

The significance of free ports lies, first of all, in their mediating functions in international trade. Free ports attract to themselves transit and import cargoes, mainly by the fact that mere regulation in them, due to the lack of complex and usually long customs procedures, is significantly reduced, as well as by the fact that cargo owners can first sell the commodities with destination into the country and only then pay duties, that is win in time. 'Domestic' capital is not an opponent of international trade if it runs on its 'national' territory and brings profit, although it was detached from the customs cordon. 'The Sabbath was made for man, and not man for the Sabbath'. So likewise with customs borders.[378]

A special case of violation of the principle of territorial unity in the economy we have when as a result of compromise a rejoining territory preserves for itself the right to an own customs policy. This was the situation with Finland in pre-revolutionary Russia.

As we have already mentioned, one should not think that with the creation of the modern 'national state' it is about a unification in the given state of all related areas, populated by the identical *nationality* and only it.

In the age of capitalism with its gigantic development of technology even such *natural boundaries*, like mountain ranges and great rivers, noticeably lose their meaning of boundaries. Rivers are rather a connecting means than an obstacle to intercourse. Mountains and deserts successfully are overcome by tunnels, railways, and so on. What then to say about other more 'subtle' and 'delicate' borders – the borders of language, religion, races and so on. *A certain significance all of them, of course, have* – at least through the historical conditions created by them and traditions that have some influence on both the mode of production and on the circle of peoples' needs, which is reflected in its turn on the process of their active or passive self-determination.

Unity of language plays, of course, some role also in the quality of prerequisite for the formation of one or another national state. But it plays a much larger role in the quality of *task* of the already created bourgeois 'national' state. Language is an essential means of human communication. Therefore, the unity of language soon becomes one of the most important demands of the bourgeoisie, which it seeks to satisfy by the forcible spread of the language of the dominant nation. Language is an essential condition for truly free and widespread capitalist commodity circulation.

'In the West, – Stalin said at the Tenth Party Congress, – in Britain, France, Italy and, partly, Germany—the period of the liquidation of feudalism and the constitution of people into nations coincided, on the whole, with the period in which centralised states appeared; as a

[378] Kulisher 1924, pp. 205–32; Kejlin 1929, pp. 43–6.

consequence of this, in the course of their development, the nations there assumed state forms'.[379] In other words, the formulation of the nation as a linguistic, racial, cultural and territorial community and its formation as a 'trading nation', as a bourgeois state go hand in hand (a different picture in the East).

Consequently, when studying the process of the formation of the modern state *one should not lose sight of natural and historical conditions,* but they should not be overestimated – they do not play the decisive role. It would be an absurdity to consider the pre-war Austrian monarchy as a natural unity of territory, and to presume that Galicia which after the war just as easily became an integral part of Poland, and Bosnia now receded to Yugoslavia, were in their time by nature itself intended to be parts of that single state territory.

However, with the determination of state borders of the modern nation one 'natural' need is extremely imperious: *the need for access to the world sea*.

> This need did not exist for the feudal state, but it becomes an urgent one for capitalism, which, after all, itself 'makes its appearance only as a result of widely developed commodity circulation, which transcends the limits of the state'[380] and for which participation in world trade is not a luxury, but a matter of life.
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> The world sea is itself, at least in peacetime, the free road of all nations, which no one can block. Against this, a state, that does not lie by the sea, remains forever, even in peace time, dependent not only on the customs policy of its neighbours, but also on all measures of economic policy in general, on the mode of maintenance of their railways, canals, on commodity-freight rates, and so on. This dependence can become directly murderous for the economic life of a 'land' state. From the viewpoint of capitalist interests, it is more prudent to live in a large multinational state, in which one can enjoy free access to the sea, than in such own 'national state', cut off from the sea.
>
> Therefore, the state, even if it is really national, will not refrain from occupying an area, inhabited by a foreign nationality, if it only by this way achieves access to the sea. And even more so the state, already possessing a sea port, and especially a single one, will by all means defend this port, although at the price of a gross violation of the principle of nationality, understood in the narrow sense of the word.[381]

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[379] Stalin 1921

[380] Lenin 1899, p. 65. [Petrov inserts this Lenin-quote within his Kautsky-quote.]

[381] Kautsky 1917, pp. 29–30.

This is precisely the 'natural process' that led Trieste and Fiume into the composition of the former Austro-Hungarian Empire, Petersburg – into the former Russian Empire, Danzig and the 'Polish corridor' – into the composition of present Poland. Before the war Europe knew in essence only one landlocked state, a country of tourists – Switzerland. After the imperialist war there was an artificial and forcible split up of the defeated Central European countries, the 'Balkanisation' of Europe, due to which under the sun there appeared new 'land powers': Czechoslovakia, Hungary, Austria. Lithuania was almost among their number.

The craving of modern Austria for inclusion into Germany is not solely explained by racial, cultural and similar moments, and not only by national-chauvinistic aspiration to re-create a Germany still more extensive and powerful than before 1914, for revenge against England and France, but also by purely-economic circumstances. A people, artificially enclosed in state borders in such a way that it at once lost all its former markets and is devoid of possibilities to acquire new ones, a people, a third part of whom is the population of only just the capital Vienna, cannot fail to consider its life mutilated.

Modern nations were formed under a variety of influences, influences which alternatively were diversified, destroyed, supplemented and reinforced each other. None of the modern nations has arisen the same way as the other. But each of them was the result of the same economic development: *capitalist production of commodities and trade*.

> [T]he modern national idea is, in essence, a *bourgeois idea*. The modern bourgeoisie and the modern nationality have grown on one and the same soil, the development of one of them contributed to the development of the other and vice versa. And the role played by the national idea, thus, corresponds to the role that has fallen to the share of the bourgeoisie. So long the bourgeoisie was revolutionary the fight for national greatness and unity was a struggle of the highest self-sacrifice, which created thousands of inspired heroes, who suffered and died for their idea, not wishing and expecting any compensation. Now, however, the national idea has become a mantle, into which are draped all sorts of profit-seekers and careerists. The economic basis of this idea has become obvious.[382]

[382] Kautsky 1887, p. 405.

A classic example of the bourgeois interpretation of the national idea we find in the apostle of protectionism Friedrich List. He defines the concept of 'nation' with a chilling endorsement of directness and frankness:

> Between each individual and entire humanity, however, stands *the nation*, with its special language and literature, with its peculiar origin and history, with its special manners and customs, laws and institutions, with the claims of all these for existence, independence, perfection, and continuance for the future, and with its separate territory; a society which, united by a thousand ties of mind and of interests, combines itself into one independent whole, which recognises the law of right for and within itself, and in its united character is still opposed to other societies of a similar kind in their national liberty, and consequently can only under the existing conditions of the world maintain self-existence and independence by its own power and resources. As the individual chiefly obtains by means of the nation and in the nation mental culture, power of production, security, and prosperity, so is the civilisation of the human race only conceivable and possible by means of the civilisation and development of the individual nations.
>
> Meanwhile, however, an infinite difference exists in the condition and circumstances of the various nations: we observe among them giants and dwarfs, well-formed bodies and cripples, civilised, half-civilised, and barbarous nations; but in all of them, as in the individual human being, exists the impulse of self-preservation, the striving for improvement which is implanted by nature. It is the task of politics to civilise the barbarous nationalities, to make the small and weak ones great and strong, but, above all, to secure to them existence and continuance. It is the task of national economy to accomplish the *economical development of the nation*, and to prepare it for admission into the universal society of the future.
>
> A nation in its normal state possesses one common language and literature, a territory endowed with manifold natural resources, extensive, and with convenient frontiers and a numerous population. Agriculture, manufactures, commerce, and navigation must be all developed in it proportionately; arts and sciences, educational establishments, and universal cultivation must stand in it on an equal footing with material production. Its constitution, laws, and institutions must afford to those who belong to it a high degree of security and liberty, and must promote religion, morality, and prosperity; in a word, must have the well-being of its citizens as their object. It

must possess sufficient power on land and at sea to defend its independence and to protect its foreign commerce. It will possess the power of beneficially affecting the civilisation of less advanced nations, and by means of its own surplus population and of their mental and material capital to found colonies and beget new nations.

A large population, and an extensive territory endowed with manifold national resources, are essential requirements of the normal nationality; they are the fundamental conditions of mental cultivation as well as of material development and political power. A nation restricted in the number of its population and in territory, especially if it has a separate language, can only possess a crippled literature, crippled institutions for promoting art and science. A small State can never bring to complete perfection within its territory the various branches of production. In it all protection becomes mere private monopoly. Only through alliances with more powerful nations, by partly sacrificing the advantages of nationality, and by excessive energy, can it maintain with difficulty its independence.

A nation which possesses no coasts, mercantile marine, or naval power, or has not under its dominion and control the mouths of its rivers, is in its foreign commerce dependent on other countries; it can neither establish colonies of its own nor form new nations; all surplus population, mental and material means, which flows from such a nation to uncultivated countries, is lost to its own literature, civilisation and industry, and goes to the benefit of other nationalities.

A nation not bounded by seas and chains of mountains lies open to the attacks of foreign nations, and can only by great sacrifices, and in any case only very imperfectly, establish and maintain a separate tariff system of its own.

Territorial deficiencies of the nation can be remedied either by means of hereditary succession, as in the case of England and Scotland; or by purchase, as in the case of Florida and Louisiana; or by conquests, as in the case of Great Britain and Ireland.

In modern times a fourth means has been adopted, which leads to this object in a manner much more in accordance with justice and with the prosperity of nations than conquest, and which is not so dependent on accidents as hereditary succession, namely, the union of the interests of various States by means of free conventions.

By its Zollverein, the German nation first obtained one of the most important attributes of its nationality. But this measure cannot be considered complete so long as it does not extend over the whole coast, from the mouth of the Rhine to the frontier of Poland, including Holland and Denmark. A natural consequence of this union must

> be the admission of both these countries into the German Bund, and consequently into the German nationality, whereby the latter will at once obtain what it is now in need of, namely, fisheries and naval power, maritime commerce and colonies. Besides, both these nations belong, as respects their descent and whole character, to the German nationality. The burden of debt with which they are oppressed is merely a consequence of their unnatural endeavours to maintain themselves as independent nationalities, and it is in the nature of things that this evil should rise to a point when it will become intolerable to those two nations themselves, and when incorporation with a larger nationality must seem desirable and necessary to them.
>
> Belgium can only remedy by means of confederation with a neighbouring larger nation her needs which are inseparable from her restricted territory and population. The United States and Canada, the more their population increases, and the more the protective system of the United States is developed, so much the more will they feel themselves drawn towards one another, and the less will it be possible for England to prevent a union between them.[383]

There is hardly any need for special comment on this honest and open bourgeois confession. We now not only precisely understand its meaning, but we clearly understand the necessity and the pattern-like appearance at a certain stage of historical development of such an ideology, such an acute 'feeling of nationality'.

Many places from the quoted excerpt sound directly prophetical. Take at least the prediction about the relative convergence of the United States and Canada and the inevitability of the latter's piecemeal detachment from England.[384]

Let us sum up. To the bourgeois mode of production corresponds a social-political system, which grows on it in the form of a 'national state'. At a certain historical stage this 'superstructure' not only begins to appear, but also has in turn an increasingly powerful effect on the base – on the productive forces and production relations, of course, within the limits set by the latter. That which we call with high conditionality the 'national economy', also *is the unity of capitalist production relations and its socio-political form – the bourgeoisie state*. This was understood even by Maslov, who writes:

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[383] List 1909, pp. 141–43.

[384] See on this my article 'The Americanisation of Canada' (1925).

> The development of the national economy is the result of the transformation of the independent producer-artisan into the handicraftsman, working for the buyer or the owner, and into the worker, who works in manufacture. During this period, the period Marx called the primitive accumulation of capital, gradually all the foundations of the old economic system are being destroyed and the foundations of modern capitalist relations are being created.[385]

However, it was precisely this rather clear position that was misunderstood by Bukharin. In *Economics of the Transition Period* he remarks that one should not confuse '"the nation" ("the whole") with the state, i.e. the organization of the ruling class'.[386]
Lenin reading *Economics of the Transition Period* put in the margin against this remark of Bukharin '???' and inscribed: 'This is not a confusion, but a historical fact. The author "forgot" that the typical state under capitalism is a national state (+colonies, but that is not at issue here)'.[387]
In order for the error of Bukharin to be clearer, let us cite the position developed in detail by Lenin on the national state from his 1914 work *On the Right of Nations to Self-Determination*:

> Throughout the world, the period of the final victory of capitalism over feudalism has been linked up with national movements. For the complete victory of commodity production, the bourgeoisie must capture the home market, and there must be politically united territories whose population speak a single language, with all obstacles to the development of that language and to its consolidation in literature eliminated. Therein is the economic foundation of national movements. Language is the most important means of human intercourse. Unity and unimpeded development of language are the most important conditions for genuinely free and extensive commerce on a scale commensurate with modern capitalism, for a free and broad grouping of the population in all its various classes and, lastly, for the establishment of a close connection between the market and each and every proprietor, big or little, and between seller and buyer.
>
> Therefore, the tendency of every national movement is towards the formation of *national states*, under which these requirements of modern capitalism are best

[385] Maslov 1923, p. 236.
[386] Bukharin 1979, p. 231. [Bukharin wrote this apropos the term 'nationalisation'.]
[387] Lenin 1929, p. 381.

satisfied. The most profound economic factors drive towards this goal, and, therefore, for the whole of Western Europe, nay, for the entire civilised world, the national state is *typical* and normal for the capitalist period.[388]

5. Types of national economies

Not one national economy arises in the same way and in those same conditions, as another. Each is a product of specific circumstances and therefore has a special stamp, which can only be understood historically.

National economies were formed over a long historical period, stretching several centuries, unfinished also in our days. The formation of national economies in its turn did not remain unchanged. They either developed or degenerated. Sometimes they detached from themselves other national economies, ceasing to exist themselves, sometimes catastrophically disintegrated. By such a long and painful path there was created on the site of the former 'cosmos', the world of merchant capital, a modern world economy, which is a complex of national economies plus colonies and semi-colonies. A special position in the world economy is occupied by the USSR, but this is discussed below.

Despite the whole variety of national economies, one can select a few typical cases, the study of which will help us better understand the rest and unravel the problem of the national economy as a whole. The type or even the prototype of the national economy in our eyes is, before all else, England. It was the first country which managed to become a 'nation', a national economy.[389] Therefore it is useful to get closer and in more detail acquainted with the process of the emergence of the English national economy. After this we briefly touch also the others.

The history of English capitalism splits into two periods, although similar in appearance, but completely different in their historical significance. The first period runs from the end of the Middle Ages to the industrial revolution, roughly speaking from the fifteenth century to the middle of the eighteenth century. Its characteristic feature is the hegemony of the trade-capitalist interests both in the economy of the country and in its policy. This is the time when 'trade dominates over industry'. It could be called the 'early-capitalist period' in contrast to the proper-capitalist, modern period, when, on the contrary, industry begins to dominate

[388] Lenin 1914, pp. 396–97.

[389] Riazanov thinks that historically the Netherlands is the first national state (See his notes to the *Communist Manifesto*, 1925, p. 114.) [Riazanov 2003 contains a history of English trade with Russia.]

over trade, when the development of industrial capitalism determines by oneself the general development of the country, its economy and policy. The early-capitalist period in relation to the proper-capitalist period plays, thus, the role of transitory, preparatory period. From this point of view, it can be characterised by the following moments.

The starting point of the movement is feudal society with exchange that was barely born in its depths. Only with great difficulty, slowly, does exchange break the narrow local borders and draws into intensive market relations one province after another. If some accelerating factors, which we will discuss below, had not joined [then] economic development would continue to follow this relatively slow rate. English economy for a long time would have remained natural, exchanging only surpluses of their products, the remainder for covering the needs of producers. At the rate of economic development, that would have taken place under such conditions, England would hardly have gone ahead of other countries, for example, France and Germany, and indeed, in any case, it would have fallen behind compared with Italy and Portugal.

'There can be no doubt', says Marx, 'that the great revolutions that took place in trade in the sixteenth and seventeenth centuries, along with the geographical discoveries of that epoch, and which rapidly advanced the development of commercial capital, were a major moment in promoting the transition from the feudal to the capitalist mode of production'.[390]

Consequently, *not in the conditions of a given country, England, taken in itself, but in the conditions of the world economy, in the international division of labour and exchange one needs to look for the main spring of the rapid development of capitalism*. In the above quotation of Marx we find the same idea that, as we have already said, Lenin expressed as such: 'capitalism makes its appearance only as a result of widely developed commodity *circulation*, which transcends the limits of the state'.

It goes without saying that the great geographical discoveries were in turn determined by economic development. Trade capital had been under the sun, very likely, more than one millennium. However, only in the Middle Ages the development of productive forces and social relations began to intensively drive it on the search for *new routes and new countries*. Sudden expansion of the world market, multiplication of circulating commodities, rivalry between European nations in the pursuit of mastery of Asian products and American treasures – all this substantially contributed to the destruction of the feudal framework of production. Special significance had for England the enlargement of the capacity of the world market, in the first place – its Dutch sector, in relation to English wool. Mass

[390] Marx 1981, p. 450.

'commodification' of the English economy was rendered possible only from that moment, as the major products of the rural economy of England (wool, raw hides) found mass marketing.[391]

The growth of England's participation in world trade was accompanied by *creation in the country of large capitals* and in general by concentration of property of the means of production in some hands. The development of productive forces required the creation of capitalist relations – and behold they appeared. There was launched the dispossession of farmers and proletarianisation of this huge part of the population. The great process of *primitive accumulation* began in full swing. There appeared both of the mandatory elements of the capitalist mode of production: means of production as capital, and labour force in the form of 'free-as-birds proletarians'.

Trade capital is able to transform the feudal into the bourgeois state only because it itself is able to grow into its own opposite, into industrial capital. Able of this proved to be, by virtue of a number of historical reasons, English capitalism and incapable Dutch.

Not the least role in the number of reasons was played by the *insular position* of England, the contours of its shores, its natural resources, climate and soil, in a word, natural conditions of production. They do not explain to us the origin of English or any other capitalism, but to some extent they explain the faster growth of capitalist relations, precisely in this country in comparison with others. Adam Smith had some grounds to remark:

'England ... is perhaps as well fitted by nature as any large country in Europe to be the seat of foreign commerce, of manufactures for distant sale, and of all the improvements which these can occasion'.[392] And, indeed, not a single country at the beginning of the new time was in more favourable conditions for the development of capitalism than England.

For the formation of England as a capitalist 'nation', as the first national economy, of great importance in particular was, as we just said, its insular position. It provided relative security of a sufficiently large area with extreme natural frontiers in the form of the sea, which simultaneously 'separated' and 'not divided' it from the outside world. 'Separated' in the sense that military and economic protection of the domestic market was relatively easy. 'Not divided', since the sea, unlike other natural frontiers, such as, say, mountains or deserts, not only does not interfere, but, on the contrary, greatly contributes to the economic connection of citizens of a given country with foreign countries. Moreover, the sea, in conjunction with the convenient geographical position of the island of England at the very gates of Northern

[391] Compare Marx's note in Marx 1989a, p. 575 [*Theories of Surplus Value* volume 2 part 2, 1925, p. 93 Russian edition].

[392] *Wealth of Nations*, book III, chapter 4 [not in 1909 edition].

Europe, provided this country an initiative and active role in world exchange. *Trade-capitalist England grew on servicing the exchange of substances of the developing world economy*.

Already a long time after the role of English commodities on the international market had become noticeable, especially the role of wool, and later, – cloth, the foreign trade of England still continues to be serviced by foreigners, mainly, the Hanseatic, Italians, Dutch. However, as early as the end of the fifteenth century Venetian merchants began to be crowded out of trade on the island. At the beginning of the fifteenth century this displacement becomes systematic. Against the Venetians the authorities take a number of measures that are motivated by the fact that these merchants bring in unnecessary commodities, do not deliver spices, silk, do not bring in money. As a result there come breaks, for several years each, in visiting of the island by Venetians, and in 1534 they come to England for the last time, after which they no longer appear here. At the end of the sixteenth century, the government of Venice did not even know whether it has a consul in London. Meanwhile the English consul in Venice at this time is widely operating.

Almost simultaneously the Hanseatic trade too undergoes constraints. In 1552 the Hanseatic people were deprived of all special privileges, which they still benefited in England, and are made equal with other foreign merchants. In 1598 the English authorities close the trade compound of the German Hanseatic merchants in London, the Steelyard [*Stahlhof*]. The activities of the Hansa with every year are sapped, fall, despite the fact that trade relations of the island with the Continent are growing: the English take the developing foreign trade in their own hands.

Economic development of Western Europe in the sixteenth century consists of two directly opposing processes. At one pole Europe (England, partly Holland) experiences an undoubted growth of capitalism, increasing its relative weight on the world-wide scale, the formation of the national economy. At the other pole (first in Italy, then the Hansa; we already no longer talk about Spain and Portugal) – [the experience of] an equally undoubted process of decomposition of a once strong economic organisation, a decline in trade capability. In the figures of Venice and the Hansa depart into the past those economic developments, that, in Marx's expression, 'existed like the gods of Epicurus in the *intermundia*, or like the Jews in the pores of Polish society'.

The trade of the first independent magnificent trade cities, as a purely-mediatorial trade, was based on the barbarity of producing peoples, in relation to which they played the role of intermediaries. By contrast, the trade of England develops on its own growing production,

included in world exchange, in the world economy. *Not the state, but the nation-state enters the front stage of history*.

A nation-state is different from a city-state not only in a quantitative way, that is not only the size of its territory and its population number, although also the quantitative moment plays a big role. There emerge what are called 'national interests', that is there emerges a 'national' bourgeois state, as instrument of capitalist policy.

The national state from the first steps of its activities had to address the pursuit of tasks, lying in two planes. Firstly, it had to take care 'that these opposites, classes with conflicting economic interests, might not consume themselves and society in fruitless struggle',[393] that 'order' was provided within her society that is more divided by class contradictions. The peasants driven from land, future proletarians, huge masses of just created vagabonds, composed a serious threat to this order. Secondly, *capitalism of this country hastened to operate on the institution of its state in opposing itself to the external world*.

The first kings of the Stuart dynasty, James I, Charles I, did not carry on an active enough national policy towards Holland. Successes of the latter in trade in the north of Europe, at the beginning of the seventeenth century, became ever more significant. Dutch competition was most painfully felt on the development of English trade capital. Freight transport, the central world markets, the exploitation of colonial mines were in the hands of Holland. Developing English capitalism demanded a struggle with the growing Dutch competition. Meanwhile, the kings James I and Charles I tried to be friends with Holland and even became related with the House of Orange. Thus, the government of England did not sufficiently reflect the interests of the growing capitalist nation.

The growing inconsistency between the economy of the country and the policies of its government had sooner or later to pour out in the form of a socio-political collision. This collision occurred In 1642–49, when *revolution* put a new republican government in power. One of the most serious measures of the republic was the 'act of navigation' or so-called Navigation Act of Cromwell, taken by parliament in 1651. According to this act the import of commodities to England was allowed either on ships of English owners, or on ships of those countries where the given commodities have been produced. Since the Dutch themselves produced very little, the act was equal to a prohibition of their transport and colonial trade in England. The Navigation Act relates to a category of typical economic-political measures of the national state, because it was directed to expand the field of activity of English capital,

[393] Engels 1990, p. 269.

English seafaring, in order that the production and distribution of surplus value took place with maximum benefits for the English bourgeoisie.

After the second English revolution of 1688, the foreign trade policy of England begins to conform even more to the interests of native capital, even more vigorously begins to express and protect these interests as interests of the nation.

'The English bourgeoisie, – says Marx, – on attaining its political constitution under William of Orange, created all at once a new system of taxes, public credit and the system of protective duties, as soon as it was in a position freely to develop its conditions of existence'.[394]

The external world for England continued to be an impersonal 'cosmos', until the formation of other national economies, like itself. However, with the passage of time also in this 'cosmos' appeared some distinction from the point of view of England: it gradually began to acquire own colonies. The colonies proved to be sort of dependent appendages to the metropolis, objects of its activity, different from the rest of the world only by the fact that, if desired, they could have been somewhat isolated from 'third parties' and are subject to more shameless exploitation.

The over the centuries formed grandiose British Empire proved, however, to be a too diverse and complex entity, to be considered as one continuous national economy. Rather, it should be viewed as a complex, consisting of a single national economy in this complex (the metropolis – England), several possessions that proved capable of development into independent national economies (although they have not completed this development so far) and the rest, a completely disenfranchised and helpless pile of colonies in the proper sense of the word. However, about the process of development of centrifugal forces of the British Empire we will speak a little later. Let us now rest our attention on the history of some other national economies.[395]

Intensive growth of exchange relations, everywhere bringing the matter right to primitive accumulation and transition to the capitalist mode of production, also pushed everywhere to create large national-economic territories. Different countries have experienced therewith quite different evolution.

One, for example, Holland, already had a high degree of capital formation, but was unable to rely on a sufficiently extensive domestic market. In the opinion of Friedrich List, it could easily have created it from the Rhineland, North Germany and present-day Belgium.

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[394] Marx 1976a, p. 196.

[395] The early-capitalist period of Britain was treated in my work *British Capitalism at the Dawn of its Development* (Works of the Institute of Red Professors) 1924 [58 pp., 1925].

> If Holland, – says List, – in union with Belgium, with the Rhenish districts, and with North Germany, had constituted one national territory, it would have been difficult for England and France to have weakened her naval power, her foreign commerce, and her internal industry by wars and by commercial policy, as they succeeded in doing. A nation such as that would have been, could have placed in competition with the commercial systems of other nations a commercial system of her own. And if owing to the development of the manufactures of those other nations her industry suffered some injury, her own internal resources, aided by founding colonies abroad, would have abundantly made good that loss. Holland suffered decline because she, a mere strip of sea coast, inhabited by a small population of German fishermen, sailors, merchants, and dairy farmers, endeavoured to constitute herself a national power, while she considered and acted towards the inland territory at her back (of which she properly formed a part) as a foreign land.
>
> The example of Holland, like that of Belgium, of the Hanseatic cities, and of the Italian republics, teaches us that mere private industry does not suffice to maintain the commerce, industry, and wealth of entire states and nations, if the public circumstances under which it is carried on are unfavourable to it; and further, that the greater part of the productive powers of individuals are derived from the political constitution of the government and from the power of the nation.[396]

Other countries, for example France, successfully formed themselves into sufficiently large state-monarchies and showed undoubted rudiments of independent bourgeois foreign economic policy, but showed them a bit too timidly. The trade policy of absolutism was both indecisive and fluctuating. Absolutism could not overcome such an obvious vice, as internal customs duties and a different tax regime in different parts of the country. Elements of capitalism were not yet so developed in the country to insist on the destruction of these attributes of the feudal system. 'Free competition inside the nation itself, – Marx says, – had everywhere to be conquered by a revolution — 1640 and 1688 in England, 1789 in France'.[397] Only as a result of the long period initiated by the Great French Revolution and completed by the Napoleonic wars, was France finally formed as national state in the bourgeois sense of the word. It is curious to remark that in the period of Restoration when noble-feudal circles

[396] List 1909, p. 27.
[397] Marx 1975, pp. 72–3.

and the upper financial bourgeoisie returned to power, not only were there not taken any steps back to the old regime and feudal system, but, on the contrary, all state policy was directed on further deepening and strengthening national ties. As never before was deployed a program of industrial and agrarian protectionism. As never before the government persecuted unions of workers and the slightest attempts of perturbation. For all the subjective reactionariness of the government of Restoration, it did everything possible to strengthen the positions of the French bourgeoisie. Willy-nilly it carried out the bourgeois national policy.[398]

Third countries, which include Germany and Italy, for a long time suffered from both extremely weak development of capitalist relations, and the fragmentation of territory. Only in the middle of the nineteenth century there is a spectacular transformation of the one and the other into real national states. However, more detailed coverage of this process we postpone to another case.

So gradually the 'family of advanced nations' was created and multiplied and thus in place of the former cosmos, a *world economy* formed, that is the totality of national economies plus the capitalistically undeveloped colonial, semi-colonial and in economic relations simply backward periphery.

The world economy does not stop replenishing with new national economies also in our days. Some of them are formed by converting backward countries, others by 'spinning off' from earlier national economies. Among the first are, for example, Turkey, China. Among the second – the British dominions. India takes a special position in this whole process.

The history of Turkey's transformation into a national economy is especially instructive to us. The epoch of the bourgeois-democratic revolution in Eastern Europe and Asia began in 1905. However, the decisive transformation of Turkey essentially began only after the imperialist war and cost the Turks enormous sacrifices, brought by them in the national-liberation war against Anglo-French imperialism and imperialist hirelings in the form of Greece.

Turkey's belated entry in the arena of national movements in the bourgeois sense of the word put it, in contrast to the 'nations' of the nineteenth century, before the necessity to fight with imperialism and feudalism at the same time. In this age, when the whole world is divided between the largest capitalist powers, Turkey could not successfully solve the task of the creation of an extensive state territory. On the contrary, it had to agree to a significant

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[398] See more on this my earlier work 'The French Working-Class in the Epoch of Restoration' (1923), compiled on the basis of documentary materials first collected and published in the book of D. and H. Bourgin, *La regime de l'industrie en France de 1814 à 1830*, Paris 1912.

reduction of its borders in favour of imperialist interests in its west, east and south. It suffices to recall the history of the detachment of the oil bearing Mosul district.

Consciousness of national interests was not alien also to the former old state system of Turkey. The pressure of the earlier established national states, especially when they degenerated into an imperialist state, every day and hour pushed the Turks on the path of national cohesion and liberation. Even stronger than the external pressure, were reasons of internal order: the development of capitalist relations in the country, the extension of the principle of private ownership of land, and so on. Parker Moon paints the development of the national economy of Turkey with such strokes:

> The Turks form a pretty solid block of humanity, in their historic homeland, the rough plateau of Anatolia. To call them "Turks" is perhaps to beg the question of their identity, for, in the mass, they are doubtless a very mixed breed, in which a relatively small element of Mongolian or Turkish blood has been mingled with many other strains, some of which probably go back to the prehistoric inhabitants of Asia Minor. But they speak the Turkish language, and seem to be learning to consider themselves members of a Turkish nation, as much entitled to nationhood as any other. This sentiment of nationality, be it noted, is a recent development, very different from the old Ottoman policy of considering any Moslem, regardless of tongue or blood, as Ottoman. The new nationalism is the product of Western civilization, transplanted by European imperialism into an Oriental soil (it would be necessary to render more precisely: the product of capitalist relations – *N.P.*). And this new nationalism, fiercely jealous of independence, resentful of encroachment, is an obstacle to European imperialism.[399]

In the last sentence there is an unquestionable exaggeration: the bourgeois nationalism of the young country is only a relative obstacle to imperialism, because, seeing the light in the era of imperialism, it pretty quickly becomes associated with it [through] a significant community of interests, and moreover, it simply falls right into an economically dependent position

Turkey managed to throw off the Treaty of Sèvres [1920] imposed on it by the winners, that completely restored the old capitalist order. After a long and difficult national war the Turks achieved that instead of the Treaty of Sèvres, a new one entered into force, proceeding on a

[399] Moon 1926, pp. 267–68.

completely different basis. The Treaty of Lausanne 1923–24 broke, finally, all the bonds that bound Turkey for several centuries, and despite a number of shortcomings, it opened up great opportunities for the development of the productive forces of the country in their capitalist form. From now on Turkey has the possibility of formal equality, and partly also actual reciprocity with other powers. It is trying to vigorously develop patronage of its production, especially textile, sugar, coal, as well as agriculture. The detachment of a new national sector in the form of Turkey does not occur, of course, with such ease with which it happened before in other countries a hundred or eighty years ago. A customs wall of any height can be overcome and broken today by capitalist monopolies with the help of export premiums.[400] However this detachment still gives something to Turkey.

Protection tariffs in Turkey as in other countries give affect not only in the plane of the internal market, which they defend, but also on the foreign market. The level of discount from the high tariff rates proves an opportunity to bargain from other countries for a corresponding discount of products of the given country. In this way, Turkey, for example, received substantial customs discounts on the following items of its exports: tobacco, fruits, olive oil, carpets, cotton, opium and so on.[401]

By the example of Turkey we can touch a little closer on one more aspect of the phenomenon. One should not in any case understand the detachment of this or that national sector in the sense that a comprehensive weakening of ties with the outside world occurs, that there develop some original 'true-Turkish', 'true-French' and so on, attributes, that there is obtained a closedness and so on. Quite the opposite. Only a consistently conducted national policy in the bourgeois sense of the word often for the first time opens the way to European capitalist civilisation, to the acquisition of bourgeois legal norms, to the relative emancipation of women, to the change of Arabic into Latin alphabet, to the transition to the metric system, and so on. Turkey is feverishly working on the development of communication routes, which would link the individual parts of the country both with one another and with the outside world. This graphically attests to *the unity of world production relations*, [which are] not torn, but, on the contrary, strengthened by the creation of national economies.

> In place of the old local and national seclusion and self-sufficiency, – Marx says in the *Communist Manifesto*, – we have intercourse in every direction, universal [*allseitige*]

[400] [Petrov wrote the entry on export premium in the *Great Soviet Encyclopedia*, Volume 13 (1929), 'Vyvoznye premii' pp. 691–95.]
[401] Genin 1929; Zonnenschtral'-Piskorskij 1929.

> inter-dependence of nations. And as in material, so also in intellectual production. [...] National one-sidedness and narrow-mindedness become more and more impossible [...].
>
> The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation. [...] It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image.[402]

What is happening in China – is in front of everyone. The Chinese bourgeoisie, just as the Turkish, directs all thoughts on ending the unequal treaties imposed on China, in order to move to an independent foreign trade and economic policy. Sometimes it even seems that it is ready to take decisive forms of national-liberation struggle against imperialism. But courage rarely is the lot of the bourgeoisie. Least of all from it can be expected in our age, when every bourgeoisie, including the Chinese, have to fear not only the external enemy, but also the 'internal' one – the working class in modern young countries grows faster than it grew in its time in the old bourgeois countries.[403]

With 'natural' formation processes of new national economies, as we have described it above, should not be mixed the forcible ones, an example of which gives the policy of the victorious powers, beginning with the Versailles peace treaty. As is known, as a result of the war an extreme splitting up happened of the major old states, the '*Balkanisation of Europe*'. Of the territory of the three great former empires were formed a lot of small or relatively small 'independent' states: Austria, Hungary, Latvia, Lithuania, Poland, Czechoslovakia, Estonia. We do not mention Finland because it also before was not in an economic relation as a unified whole with the Russian Empire, [but] had its own customs borders and so on. We do not mention the numerous Balkan states, as they were formed significantly earlier and in part could use their national independence for faster development of capitalism in them. It should nevertheless be remarked that they remained also after the war essentially small, although some also grew at the expense of neighbours, in particular – Yugoslavia.

Each of the newly formed states took a similar independent national economic foreign policy, the result of which in the first turn was the extension of the customs borders of

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[402] Marx 1976a, p. 488.
[403] Lenin 1914, p. 401. [not a quote]

Europe by so many times. Solely from this innovation, international trade after the war was supposed to show a statistical 'growth' in comparison with the pre-war period: because the turnover that was previously internal has now become 'external' (for example between Austria, Hungary and Czechoslovakia). *This false growth of international trade* entirely corresponds to the falsities of the new-formations themselves, of all these Lilliputian-countries, attempting in the era of imperialism to have an own and moreover independent trade policy. This brings nothing, except irritation, to the actual agents of international economic intercourse.

The slogan of 'Pan-Europe' is a curious manoeuvre of some groups of the imperialist bourgeoisie in particular because it promises: 1) to industrial and trade capital, the destruction or mitigation of these numerous and unbearable borders, and 2) to the agricultural bourgeoisie of newly formed small 'powers' the promise of cheap foreign industrial products. Finance capital is trying to create a bloc with the European kulak [affluent peasant], and partly, the landlord. A kind of 'Stolypinshina' on a European scale.

In conclusion we must temporarily return to England, or rather – to the British Empire. As we mentioned before, the new national economies are formed not only at the expense of the 'cosmos', at the expense of [the creation of] non-unified 'nations' in it and an undeveloped capitalist periphery. There may take place also such cases, as the dismemberment of already formed national economies.

The North American colony of England rose against its metropolis, separated from it after a protracted struggle (1776–89) and proclaimed its independence at the very moment when on the European continent the Great French Revolution began to flare up. The formation of the United States as an independent national state was helped by the natural-geographical factors (even in a greater degree than England in its time). Two oceans, the Atlantic and Pacific, provided the United States with a near insular position. The vastness of the conquered territory was supplemented by the wealth and diversity of climate, soil, vegetation, underground deposits, and so on. However, the basis of the events of 1776–89 were economic causes – the development of America's participation in world trade and the penetration of capitalist relations in the New World.

An energetic foreign economic policy, in particular – protectionist duties, have quickly moved forward the development of national capital of the United States on this basis. True, in the course of many dozens of years in America persisted still slavery of Negroes, but also this relic was decisively eliminated after the 1861–65 Civil War. In the further development

of capitalism, processes of concentration and centralisation proceed already at a rapid pace, and *the national state quite quickly reincarnates into an imperialist state*.

There occurs another example of spin off of national economies before our eyes. This is the grandiose process of *decentralisation of the modern British Empire*. All dominions (Canada, the Union of South Africa, Australia, New Zealand, Ireland) and together with them British India quickly move to complete self-dependence and independence from England. – *A delayed thrust to national statehood*. In the age of imperialism it is difficult or almost entirely impossible to create really independent and free national economies. The cession from England of all or some of the aforementioned possessions can end in an ephemeral independence with actual dependence on a different, stronger power, such as the United States, or even a complete merger with the latter. The first, for example, can easily happen with the Union of South Africa, the second – with Canada.[404]

The inevitable 'Americanisation of Canada', about which everyone now speaks, was clear to Engels already in 1888. In that year he travelled in America and wrote from there to Sorge:

> The transition from the States to Canada is a curious one. First of all you imagine yourself back in Europe and then you feel you're in a land that is positively retrogressing and going to rack and ruin. Here you can see how essential the Americans' feverish spirit of speculation is to the rapid development of a new country (given capitalist production as its basis). In ten years this sleepy Canada will be ripe for annexation—by which time the farmers in Manitoba, etc., will be demanding it themselves. In any case this country has already been half annexed from the social point of view—hotels, newspapers, advertisements, etc., all conform to the American pattern. And however much they may struggle and resist, the economic need for an infusion of Yankee blood will assert itself and abolish this ludicrous boundary line—to which, when that time comes, John Bull will say Yea and Amen.[405]

One could cite quite a few illustrations of how the British dominions are gradually breaking away from their metropolis and developing in the direction of independent national economies. To use an expression of Hegel, in the figure of the dominions we have '*national economies in becoming*'. The observation is rather significant from the practical point of view. When we concluded the last 'temporary trade agreement' with England, we became

[404] These questions were further elucidated in Petrov 1925b, 1925c, 1925d.
[405] Engels 2001a, p. 213.

practically acquainted with this problem. It was reflected in the text of the agreement in a number of Articles (4, 5, 6, 7 and annex). For example, Article 4 reads:

'The provisions of the present Agreement may by mutual agreement be extended with any modifications agreed upon to any of His Majesty's self-governing Dominions (including any mandated territories administered by the Governments of such Dominions) or to India, by means of an Exchange of Notes between the Government of the Union of Soviet Socialist Republics and the Government of any such Dominion or of India'.[406]

Ireland, especially jealous in relation to questions of its own independence, hastened to state at once that not one provision of Articles 4 and 6 of the temporary trade agreement between Britain and the USSR applies to it, and that it is ready to exchange Notes directly with the government of the USSR, establishing a modus vivendi between Ireland and the USSR pending the conclusion of a particular trade agreement.

This same discrepancy between England's foreign economic policy and its possessions we encountered even earlier, for example, in the breakdown of our relations with England, which far from automatically and not immediately led to a break with dominions (Canada and Australia). In the future we can expect even more of the same divergence in policy (not only in relation to us) between England and its rebellious possessions.

6. The unity of production relations of the capitalist world

Our standpoint is that world and national economy constitute subjects of political economy and form merely special sections in the latter, just as there are special sections of political economy [like] the doctrine of money, agricultural economy, the question of wages, crises, and so forth.[407]

A perfect confirmation of this view is the fact that in questions of understanding the essence of the world and national economy the dispute goes in essence between those same ideological trends as also in the basic methodological questions of political economy.

The unifying characteristic feature of all bourgeois trends in the field of political economy – is subjectivism. Bourgeois political economy is correctly described as an attempt to give the capitalist entrepreneur a practical guide 'to action', only not to action in the interests of society, but in the interests of the purse, in the interests of the class of capitalists.

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[406] H.M. Stationery Office, 'Temporary Commercial Agreement between His Majesty's Government in the United Kingdom and the Government of the Union of Soviet Socialist Republics', London, April 16, 1930.

[407] About this my article Petrov 1930a.

Nothing else but subjectivism is the characteristic feature of all bourgeois theories of foreign trade, starting from Ricardo to our days. Subjectivism does not cease to be subjective also in those cases when the bourgeois thinker is able to rise from the individual-subjective conception to 'supra-national' interests.

What is the essence of the subjective conception in political economy? The fact that the researcher in advance refuses to rise above the point of view of the individual agent of capitalist society and objectively look at things. That he consciously stands on the position of an individual entrepreneur or group of entrepreneurs, united by some 'common interests', and does not burden himself about disclosing the spontaneously-acting laws of the market, which not only dominate over the individual participant of this market, but also define all his conduct.

If in questions of value the founders of political economy, Adam Smith and Ricardo, could still occupy a more or less scientific position and even formulated the law of labour value, although very contradictory and unclear, then in questions of foreign trade their objectivity absolutely ended. An explanation of this interesting fact should, evidently, be searched in the conditions of economic development of that time. The bourgeoisie was still on the rise, it had just done the Great French Revolution and was not afraid to recognise things as they are. No wonder the classics attracted the nickname of 'pessimists' from later bourgeois historians of economic thought. The bourgeois never again could rise so high scientifically as this was at the end of eighteenth and early nineteenth century, when he was not even afraid to openly admit direct contradiction of class interests. The bourgeois of later era, especially – the modern bourgeois, cannot create any social theory, except an apologetic one.

Together with that also the objective possibilities to understand the basic laws of exchange society among the classics were quite great. England, the birthplace of the classical school, was already at a high stage of development of capitalism, which it was impossible to say about other countries. In that time when it as a morsel of exchange society, located on the British Isles, managed to unite in a 'national economy', this phenomenon on the continent and in America was only in embryo or in an insufficiently developed form. Everywhere, even in such large states as France, Russia, could be met the flowers of feudalism. As for Central Europe, it remained in a fragmented situation. About other parts of the world there is no sense of speaking.

No wonder therefore that speaking about foreign trade the Englishman of the era of Adam Smith and Ricardo looked at the whole world through the eyes of the Englishman, and at his country looked as the only 'organised whole', from whose point of view also only the rest of

the world exists. He had no concern that capitalists of other countries likewise begin to become conscious of their interests, likewise adapt the state to these interests itself, likewise look upon themselves as a 'nation'. He firmly believes that in this world – 'every man for himself, and God for us all', therefore considered it completely natural to look at the whole world *egocentrically*, that is to put at the centre of the whole world himself, his 'national economy'.[408]

Take Adam Smith, who writes, like no other, 'about the wealth of nations'. As Harms informs us, some continental economists succeeded still at the beginning of the nineteenth century to notice, that in the figure of 'cosmopolitan' before us is a man, who cannot leave the English soil, cannot understand world capitalist relations as a single whole.

> In German literature, Julius von Soden, as far as I know, was the first who spoke against Adam Smith. In Volume I of his *National Economy*, which appeared in 1805, he entered into a polemic with the Scotsman. His rebuke centred on the fact that the system of Smith is not 'world-wide' enough. "In general ... Smith's treatment is dominated by a one-sidedness and local point of view, which must significantly lower the value of a work which is devoted to the interests of the whole of humanity".
> 'Just like von Soden, Cancrin (1821) too turns against Adam Smith, of which he says that even his "most general positions strongly smell of the individuality of England".[409]

The 'free-trader', 'cosmopolitan' and classic Ricardo only because of this changes the theory of labour value, as soon as it concerns foreign trade, [namely] that he likewise looks upon the whole world *subjectively*, through the eyes of an Englishman. He, in essence, considers it possible to speak only about foreign trade, but not about 'international' trade. The 'foreign merchant' and 'world markets' only insofar as 'nations', from the viewpoint of which they also are only 'foreign' and of the 'world'. Each nation provides its own measure for the measurement of the value of foreign trade turnover.

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[408] An unparalleled depiction of the egocentrism of capitalist consciousness is given by the first pages of the most famous work of Dickens [pp. 10–1 *Dombey and Son*, 1848]: 'And again he said "Dombey and Son", in exactly the same tone as before.
Those three words conveyed the one idea of Mr Dombey's life. The earth was made for Dombey and Son to trade in, and the sun and moon were made to give them light. Rivers and seas were formed to float their ships; rainbows gave them promise of fair weather; winds blew for or against their enterprises; stars and planets circled in their orbits, to preserve inviolate a system of which they were the centre'.

[409] Harms 1920, pp. 13, 20.

If the inconsistent Ricardo paid tribute to subjectivism even in the theory of exchange between individuals ('Every man has some standard in his own mind by which he estimates the value of his enjoyments, but that standard is as various as the human character'.)[410] then is it surprising that his subjectivism went into the theory of international exchange?

Ricardo resolutely avoids any mention of international value, of a single measure of value for different countries and so on, although in places he comes close to recognise it.[411] On the contrary, the value of money of different countries is different, the value of imported and exported commodities in him 'is not determined by the respective quantities of labour devoted to the production of each'.[412] By what is it determined?

> [T]he value of all foreign goods is measured by the quantity of produce of our land and labour, which is given in exchange for them ... [T]he value of the commodities imported will [not be] increased or diminished by the greater or smaller quantity of foreign goods obtained. [...] The labour of 100 Englishmen cannot be given for that of 80 Englishmen, but the produce of the labour of 100 Englishmen may be given for the produce of the labour of 80 Portuguese, 60 Russians or 120 Indians. The difference in this respect, between a single country and many, is easily accounted for, by considering the difficulty with which capital moves from one country to another, to seek a more profitable employment, and the activity with which it invariably passes from one province to another in the same country.[413]

We consider it extremely characteristic for bourgeois political economy that *it did not once make an attempt to build its theory of exchange on the rudiments of the theory of foreign trade of Ricardo*. A more frank attempt in this respect Weigmann recently made, who declared, that from the two contradicting parts of Ricardo's teachings the only one correct is that devoted to foreign trade. As for the Ricardian law of labour value, then, according to Weigmann, it can be considered valid only insofar as it does not contradict the law of international exchange.[414]

Mill and later economists up to our day give nothing new in comparison with Ricardo. Mill's 'law of alignment of international demand' by itself represents nothing new, except for the

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[410] Ricardo 1821, p. 280.
[411] See for example Ricardo 1821 [Petrov refers to Russian edition p. 97, which in English seems somewhere around p. 150, but we did not find the exact page.].
[412] Ricardo 1821, p. 140.
[413] Ricardo 1821, pp. 131, 141–42.
[414] Weigmann 1926, p. 11.

naming, in comparison with the teaching of Ricardo. True, Mill already speaks about 'international trade' and its 'laws', but this – is only definitions and deductions on the basis of what Ricardo said.

The egocentric worldview of the nationally-limited bourgeois we can represent with the help of diagram (I), which we take from Harms's book on world economy.[415]

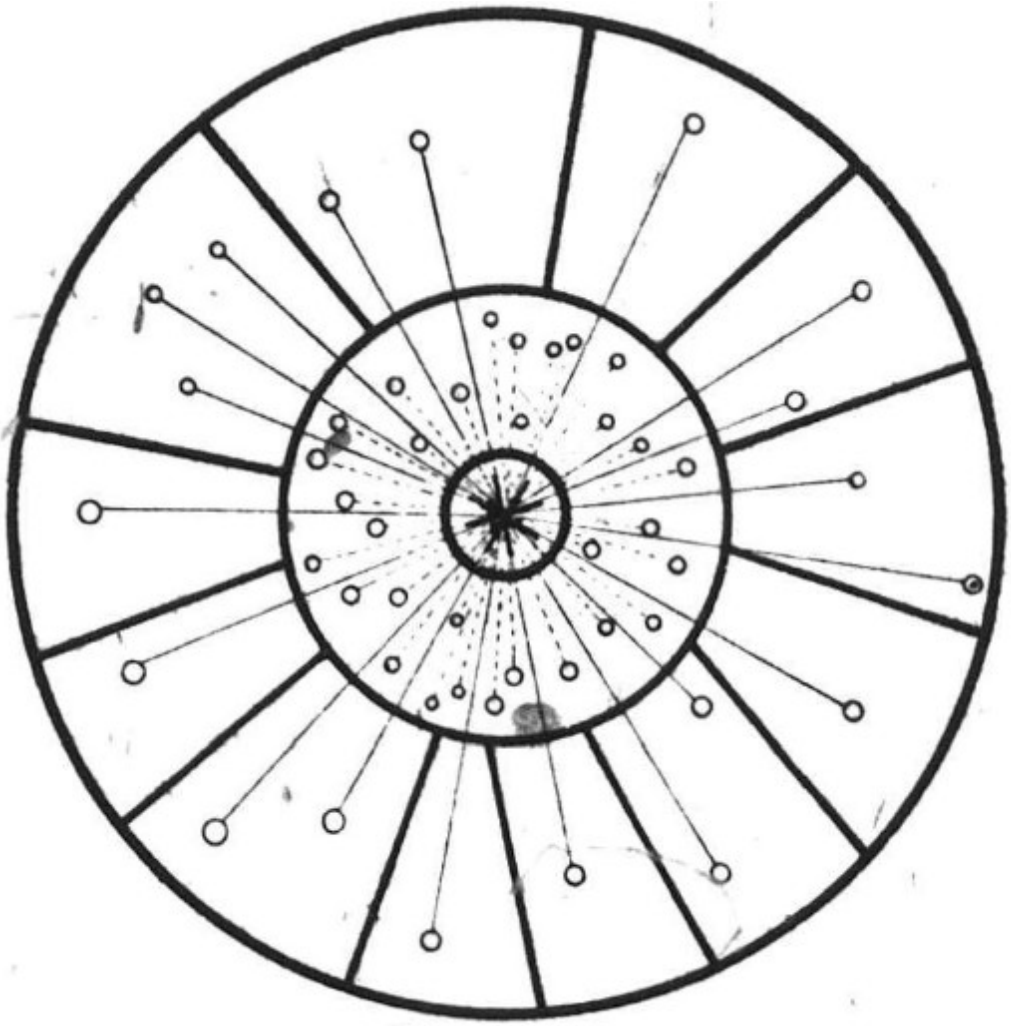

Диаграмма I.

Diagram I.

[415] We are aware of the whole difficulty of graphic devices for the depiction or illustration of facts from the domain of social relations. At the same time we draw the reader's attention, that the thought itself which we invest in the diagrams taken from the book of Harms, is with us completely different than in the latter. The diagrams serve *another purpose*, than the original one of their author. [The two types of lines in the article of Petrov are dotted and solid. This is probably because the journal (*Pzm*) had difficulty to print colours. In the original illustration of Harms the two types of lines were coloured green and blue. The tiny circles in Harms were coloured red.]

The central circle signifies one of the enterprises, let us say, a big capitalist firm. The little circles, distributed over the whole drawing, indicate other enteprises, with which the central one is in connection. Part of these enterprises together with others, the central ones, cover one general circle, corresponding to the borders of the state. The last and wider circle covers the whole 'abroad', subdivided (alhtough this is not necessary), in its turn, in sectors – other national economies. In its composition we likewise find little circles – enterprises, which are the counterparties of the central one. This connection of all enterprises with a given [central one] is indicated by connecting lines (dotted – within one and the same country, solid, – when the enterprise belongs to a different sector).

Everything as a whole is the sum of production relations, as the bourgeois represents it. Two things are curious in this presentation.

First, a significant indifference to the fact that the production relations are multilateral, that, for example, numerous enterprises – counterparties of this firm – are connected not only with the latter, but also between themselves, that they are based on the relation of international labour to international capital. The bourgeois at most is ready to reckon as a real and meaningful fact – that all enterprises of one country are connected by commonality of interests, 'national interests'. The whole sum of capitalist production relations, that is the world economy, for him, generally speaking, is not a topic.

Second, everything that lies outside the country the bourgeois treats as 'abroad' or, in Hegel's term, as 'other', whose own opinion about themselves is of no care to him. All the events of the whole world he measures with his own measure. 'Abroad' exists 'for him', but not 'for itself'. Here, in this still undeveloped to objectivity worldview, also hides the clue of the Ricardian theory of foreign trade, as well as, perhaps, the subjective theory of political economy in general.

From a more objective viewpoint than the one depicted above, the interrelation of the members of exchange society could be presented more plausibly. If instead of the 'egocentric' diagram (I) one depicts social relations by another diagram, closer corresponding to reality, then we get roughly what is depicted in diagram (II), which we again borrow from the book of Harms.

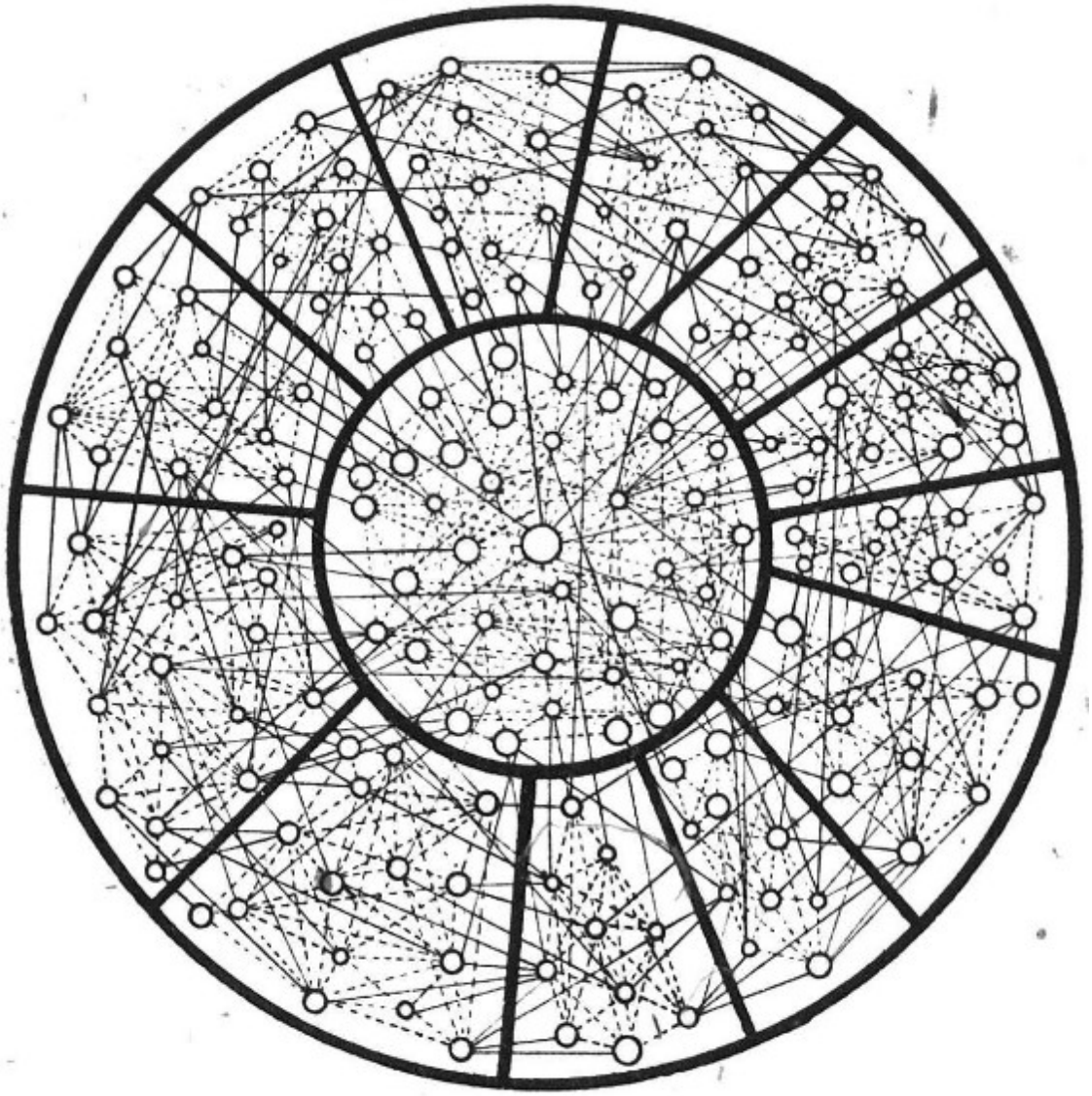

Диаграмма II.

Diagram II.

The basis of diagram (II) is the same as diagram (I). In the middle there is a circle, corresponding to some state. It is surrounded on all sides by many other states, just as in the first diagram. The location of the first state in the centre does not mean any particular position of it in the 'system of states' – its place and depiction in the drawing is completely accidental. Let it be one of the biggest and advanced states – this does not change the matter. The numerous tiny circles, scattered across the drawing, represent individual capitalist enterprises. Dotted lines connect between themselves enterprises of the same country, solid

thin lines – enterprises of different countries. Almost every economy is connected with another through dotted lines, as well as through solid lines intersecting borders.

The sum of social relations, as it now appears before us, is already a very complex, confusing network. And in fact we abstracted, maybe not entirely permissibly, from the main thing in these relations, the relation of labour to capital. However, even this imperfect presentation is on significantly higher [level] than that shown by diagram (I). The researcher now sees that social relations – [are] a complex cobweb, that many millions of 'subjects' are involved in them, that the only right way – is not to take the standpoint of this or that capitalist subject, but to rise above subjective interests and look at their games as a kind of spontaneous process, independent of them and above them.

Diagram (II) seems useful to us also because it gives the possibility to come closer to an understanding of the *unity of capitalist production relations*. Every capitalist, every commodity-owner (including the owner of the peculiar commodity 'labour power') belongs to exchange society, taken in its entirety. This usually is not caught by the eye of the superficial observer and does not reach the consciousness of each individual representative of exchange society, but it is so.

If, for example, on the Amsterdam Stock Exchange Americans speculate with shares of a Berlin enterprise, in this is found expression of production relations between German workers and American capitalists. If a London capitalist transfers part of his capital to South Africa, where simultaneously Indian coolies emigrate to, then production relations are established between Indian coolies or South African Negro Bantu, who lived up to the present a patriarchal life, and English capital. And after these direct relations follow connections of numerous others with them: everything is woven into one clew.

Our epoch, when developed capitalism increasingly brings together and stirs the already fully drawn in commodity circulation nations, 'brings the antagonism between internationally united capital and the international working-class movement into the forefront'.[416]

The borders between capitalist states do not serve as absolute barriers for economic relations, but only relative obstacles. They do not tear one capitalist society into parts that are fundamentally different from each other. Connections between all enterprises of the capitalist world are essentially the same, namely – exchange connections. Production relations remain unified also after the demarcation of the world into state territories. They are now only peculiarly *refracted* through these state borders, but their nature by no means

[416] Lenin 1914, p. 401.

changes. Under the capitalist system the economy in reality forms a single whole not within national borders, but in the world scale. In reality, a single whole is not the national, but the world economy.

The connections of exchange society, as can be seen from the diagram, are not everywhere of the same intensity. In places, they thicken [*sguschajutsja*: coagulate], become more complex and constant. This is especially noticeable for separate national sectors. *National economies become 'nodes' of world economic relations*. A beautiful formulation, for the first time, as far as we know, used by Bukharin in his book *World Economy and Imperialism*, but [his] usage [was] absolutely wrong.

National economies are not at all 'nodes' in Bukharin's sense. National economies do not at all degenerate into single 'wholes', into 'organised' 'state-capitalist trusts', 'bodies' and so on. Exchange and competition remain within a national sector the most important moments.[417] Capitalist monopolies exist along with competition. Capitalist relations of production only manifest themselves now more difficult than before, being exposed to its own 'superstructure' in the figure of the state and its economic policy.

Thus, national economies do not at all need to be reincarnate in such 'organised' Bukharinist 'bodies' in order to become 'nodes' of world economic relations. The characteristic of them as 'nodes' is based on two moments. The first is purely-quantitative, this is – the *thickening* [clumping together] of economic relations within the borders of a nation. The second consists in a certain 'quality' – the above-mentioned reverse effect of the superstructure on the base.

A couple of words about our [soviet] economists. As an example of delusions arising from a misunderstanding of the unity of capitalist production relations, first of all one should mention Dashkovsky. Instead of the one theory of value of Marx, Dashkovsky gives us two: 'world value' and 'national value'. In other words, Dashkovsky overestimates the national economy as a 'whole', approximating in this respect Bukharin. A detailed analysis of the theory of value of Dashkovsky, however, we will take up in another place.

Ugarov, in defiance of well-known Marxist positions, no less resolutely breaks the unity of production relations as soon as he starts talking about the capitalist cycle. Different phases of the cycle, according to Ugarov, run through different countries non-simultaneously. If one country is experiencing an upswing, then only because in another – is a crisis. It is not difficult to note the close kinship of Ugarov's views with the theoretical conception of

[417] In my 1928 [1929] work *International Trade and Trade Policy* I also uncritically accepted and held the erroneous views of Bukharin. About this see on page 195.

Bukharin. Ugarov's 'theory of crises' if we believed it, would have served us very badly in the winter of 1929–30, when there was debate on whether the current American crisis will grow into a world one. One should think that after Stalin's speech on the question of the *world* economic crisis Ugarov will no longer persist in the defence of his strange 'theory'.[418]

Spektator, in contrast to both, forgets relations of world labour to world capital, forgets the intra-national relations and agrees to speak only about 'economic inter-state relations'. The principles of the unity of production relations is understood by him even less than the others.

The only exception to the general rule, of the formulated by us unity of production relations, is the socialist state in capitalist environment. On its whole territory capitalist production relations are laid bare to a hard limit and limitation. In the external world, the world economy, the USSR acts like a single organised whole, which is factually and formally expressed by the fact of our monopoly on foreign trade.

7. About 'modification' of the law of value in world economy

From that moment when the sum of capitalist production begins to appear before us in the form of a world economy, understood as aggregate of national economies (plus the rest, semi-colonial or colonial countries), we come to pose the question: is there not some 'modification' of the production relations and of the law of value expressing them?

On the basis of empirical observations it is known that one can speak about 'national money' and 'world money', about the national level of the wage, about national and world prices and so on. The attention of theory likewise constantly turned to this phenomenon of 'nationalisation' and 'internationalisation' of a series of categories of political economy. It is enough to remember chapters three [Money, or the Circulation of Commodities] and twenty-two [National Differences in Wages] of *Capital* volume one.

Some enthralled heads, for example Dashkovsky, even build a whole *theory about two values*: 'world value' and 'national value', which ostensibly manage the movement of prices each in its own singular sphere, one – in the world economy, the other – in the national.

First of all let us consider the question of *money*.

The empirical fact of the existence of many national currencies and their non-simultaneous and dissimilar fluctuations in value Ricardo explains with this reason:

[418] [Stalin 1930 (June 27).]

> [T]he value of money is never the same in any two countries, depending as it does on relative taxation, on manufacture skill, on the advantage of climate, natural productions, and many other causes.[419]

In another place Ricardo defines the value of money in dependence on its quantity. He is not embarrassed by the point that the quantity of money itself in this or that country in him constantly changes under the influence... of changes in its value! For example he says: 'The demand for money is regulated entirely by its value, and its value by its quantity'.[420] As if 'demand for money' in some country, in the Ricardian argumentation, does not echo directly its quantity. Hence, the position of Ricardo can be continued until a closed and rather 'vicious' circle: 'the quantity of money regulates the demand for it'!

In Ricardo one could show many logical contradictions on the issue of money, but at this moment that is not part of our task. We shall dwell only on those elements of his theory that relate to the issue of interest to us about the essence and characteristic features of 'national money'. Here we emphasise only one, already earlier by us derived position, that if one agrees with Ricardo that the natural, climatic, in general geographical, 'eternal' causes are able to affect the value of money in different countries, then it will be necessary to frankly say that of the law of labour value, formulated by the same Ricardo, nothing remains.

Ricardo discovered the empirical fact of the difference in national currencies but failed to explain it, in the first place because he could not clearly divide the various functions of money from one another. Changes, that affect only the function of *means of circulation*, he transferred also to the function of *measure of value*. As for the functions of *treasure* and *world money*, he did not notice them at all. He always speaks only about money in general, about gold and silver as money in general. But, meanwhile, one should have talked every time about something determined, about some determined function of money. Then it would be easy to notice that with the implementation of one of its functions money willingly puts on itself a 'national uniform' (coin, a replacement of money of full-value material by tokens of value), [whereas] with the implementation of others it preserves its 'world-citizen' character (measure of value, means of payment, world money).

For example, Ricardo talks about nothing else than the *measure of value* in the following statement: 'The metal gold, like all other commodities, has its value in the market ultimately regulated by the comparative facility or difficulty of producing it'.[421] A statement true in the

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[419] Ricardo 1821, p. 152.
[420] Ricardo 1821, p. 216.
[421] Ricardo 1821, p. 217.

main, from which follows the conclusion that since 'comparative facility or difficulty of production' is a magnitude, given for each moment and for the entire capitalist world, then also the value of gold and silver, and consequently also their ability to serve as measure of value, can no longer fluctuate from country to country, under the influence of some national economic factors, all the more those, as the ones indicated by Ricardo (tax system, manufacture skill, natural resources and so on.)

In another place, several dozen pages earlier, Ricardo speaks simply about money when he has in mind essentially only *means of circulation*. But after all circulation, as is known, can be fulfilled not only by real gold or silver, but also by *tokens of value*.

> Whenever the current of money is forcibly stopped, and when money is prevented from settling at its just level, there are no limits to the possible variations of the exchange. The effects are similar to those which follow, when a paper money, not exchangeable for specie at the will of the holder, is forced into circulation. Such a currency is necessarily confined to the country where it is issued: it cannot, when too abundant, diffuse itself generally amongst other countries. The level of circulation is destroyed, and the exchange will inevitably be unfavourable to the country where it is excessive in quantity: just so would be the effects of a metallic circulation, if by forcible means, by laws which could not be evaded, money should be detained in a country, when the stream of trade gave it an impetus towards other countries.[422]

Ricardo was not able to notice and remark that the function of means of circulation with largest completeness unfolds precisely in the national economy, and not in international economic relations, where a significantly large role is played by the function of payment (credit money) and world money. He did not notice that gold, minted in the form of coin, 'puts on a national uniform' which it is able to throw off at any moment, in contrast to mere tokens of value, particularly paper money, whose 'national uniform' coalesces with its very essence.

Precisely because Marx clearly showed us the different functions of money, he was able to show that not only gold, but also to every commodity by itself is not characteristic any sort of border – religious, political, national. The *world-economic character of every commodity*, every capitalist relation, and together with this also the unity of production relations in a world scale was perfectly and cogently shown by Marx in the following lines:

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[422] Ricardo 1821, pp. 157–58.

> As money develops into world money, so the commodity owner becomes a cosmopolitan. The cosmopolitan relations of men to one another originally comprise only their relations as commodity owners. Commodities as such are indifferent to all religious, political, national and linguistic barriers. Their universal [*allgemeine*: general] language is price and their common bond is money. But together with the development of world money as against national coins, there develops the commodity owner's cosmopolitanism, a cult of practical reason, in opposition to the traditional religious, national and other prejudices which impede the metabolic process of mankind. The commodity-owner realises that nationality "is but the guinea's stamp", since the same amount of gold that arrives in England in the shape of American eagles is turned into sovereigns, three days later circulates as napoléons in Paris and may be encountered as ducats in Venice a few weeks later. The sublime idea in which for him the whole world merges is that of a market, the *world market*.[423]

The development of world money, – Marx says, – has its antipode in national money. The one does not in the least contradict the other, on the contrary, they supplement each other. Before us are not two isolated spheres of action of the law of value. So it is absurd to speak about two values ('world' and 'national').[424] One must speak about different functions of money and about the 'national uniform' of the means of circulation and only this. A proposition which has great significance for the *theory of exchange rate*.

The law of value possesses full power in the world economy (understood, as aggregate of national economies). It not in the least is violated but, on the contrary, develops thanks to the fact that some functions of money are missing in simple tokens of value, which easily acquire the stamp of nationality. Borders of the state do not change anything of the essence neither of the law of value, nor of capitalist production relations. They only refract in a certain way these relations, 'modify' [*modifitsirujut*] no more than the external manifestation of these relations. There is no need to depict some sort of special law of value for national economies, like Dashkovsky did.[425]

Simultaneously with the 'split' of money into 'national' and 'world' there occurs a certain split also in the personality of the agent of capitalist society. '[T]ogether with the development of

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[423] Marx 1987b, p. 384.

[424] [If Petrov is implying that Dashkovsky used this argument of a national uniform of money, we cannot agree that this is an accurate description of Dashkovsky's argument.]

[425] [We refer to our introduction for Petrov's idiosyncratic perspective of modification of the law of value.]

world money as against national coins, – Marx says, – there develops the commodity owner's cosmopolitanism, a cult of practical reason, in opposition to the traditional religious, national and other prejudices'. In search of more advantageous premises for capital the modern pirates of large industry do not feel shy of such trifles, as love to country, or fear to break old ties. The concept of 'capital of the fatherland', 'production of the fatherland', with which they willingly operate, means on their lips nothing more than 'working in a given fatherland'.[426] Another mood has the small capitalist fry. For him is characteristic a narrow-minded nationalism, what Marx calls 'national prejudices'. For the petty-bourgeois of the middle of the last century (to a significant extent also our modern) we find in Engels a very marked characterisation:

> In all countries the bourgeoisie emerges from the petty bourgeoisie with the development of world trade and large-scale industry, with the accompanying free competition and centralisation of property. The petty bourgeoisie represents inland and coastal trade, handicrafts, manufacture based on handwork — branches of industry which operate within a limited area, require little capital, have a slow turnover and give rise to only local and sluggish competition. The bourgeoisie represents world trade, the direct exchange of products of all regions, trade in money, large factory industry based on the use of machinery — branches of production which demand the greatest possible area, the greatest possible capital and the quickest possible turnover, and give rise to universal and stormy competition. The petty bourgeois represents *local*, the bourgeois *general* interests. The petty bourgeois finds his position sufficiently safeguarded if, while exercising indirect influence on state legislation, he participates directly in provincial administration and is master of his local municipality. The bourgeois cannot protect his interests without direct, constant control of the central administration, foreign policy and legislation of his state. The classical creation of the petty bourgeoisie were the free cities of the German Reich, that of the bourgeoisie is the French representative state. The petty bourgeois is conservative as soon as the ruling class makes a few concessions to him; the bourgeois is revolutionary until he himself rules.[427]

[426] Compare Lenin Collected Works 15, 1929, p. 555 [Russian edition, but we did not find this phrase anywhere.].
[427] Engels 1976, pp. 79–80.

To dream up a special law of value for the national economy, which Dashkovsky did, also means to pass to the level of 'local interests', 'confined to limited territory', the interests of the petty bourgeois. The big bourgeois – is a citizen of the world, although he never 'forgets' his fatherland and uses it until the end. He uses, however, not only his fatherland, but also any other. Take for example the Swedish match trust, in negotiation with governments of different (big and small) countries about loans from it and a monopoly on the sale of matches.[428] The Swedish match trust is not a 'cosmopolitan' (the cosmopolitan is indifferent to the presence of national borders). He is an 'internationalist', because he decidedly relies on his own national state, as well as on others (which he thereby likewise makes 'his own'). The 'split personality' of the agent of capitalist society Sartorius von Waltershausen wittily depicts by the example of bureaucratic corruption, which too takes 'national', then... 'world-economic' scope and character:

> The capitalistic spirit has swept the whole globe – such is the complaint or admiring recognition. Here should be emphasised, that hitherto it infiltrated the pores of different countries unequally deep. Individual life has noticeable differences everywhere, and often also in some peculiar domains. Take for example bureaucratic corruption, which the public learns of from time to time thanks to particular striking cases. Its old-fashioned form is stealing cash from the entrusted state treasury, a more modern form is to do unsanctioned business with government purchases of munition and life necessities, the most recent form of it is the one in which consortia and trusts are interested and make the state machine work in the latter's favour. About the Russian official It is known that he steals and cheats from the state in order to have money for a luxurious life, he wants to buy diamonds and silk dresses for his wife, to travel to foreign resorts. The Frenchman feels differently, he is electrified by the word 'rent'. He does not think in the first place about fleeting benefits of today, but about securing the future; sufficient government bonds, an estate with castle are his most intimate desires. As soon as he has exploited the state with brilliant result, he can, with satisfaction and as a well-off person, retreat, in order to forget about the past. The amount should not be too small, and he cannot understand how an Italian deputy, to earn a couple of thousands of francs, put his civilian life on the line. To the political speculator of the United States the French affection in turn seems completely incomprehensible. The amount that attracts his imagination does not have any exact

[428] [This refers to the 'Match King' Ivar Kreuger.]

> number of zeros at the end, he abstracts at times from the notion that capital also is a means by which one can live; rather his goal, when he puts the state in the service of his wallet, is to increase the abstract value in his hands. His will to economic power is an absolutely 'idealistic' one, he is satisfied with the feeling of possessing it, to have a means that can acquire new power on Wall Street or on the grain and cotton exchange.[429]

Just like in *The Covetous Knight*: the latter collects treasures, motivated only by the consciousness of the omnipotence of money, by the consciousness of the enormous social power, which, in the figure of money, concentrates in his hands.

> [And who shall set its bounds?] Like some great demon,
> From here I can control and rule the world.
> I need but wish—and palaces will rise;
> And in my splendid gardens will appear
> A throng of nymphs to caper and to sport;
> The muses too will offer me their tribute,
> And freedom-loving genius be my slave;
> And virtue too, and unremitting labor,
> Will humbly wait on me for their reward.
> I need but whistle low—and, bowing, scraping,
> Blood-spattered villainy itself will crawl
> To lick my hand and look into my eyes
> To read therein the sign of my desire.
> All things submit to me, and I—to none;
> I stand above all longings and all cares;
> I know my might, and in this knowledge find
> Enough reward...
> [...]I rule the world!... What magical refulgence!
> And all this mighty realm submits to me;
> My bliss is here, my honor and my glory![430]

There is some kinship between this medieval collector and the modern world bourgeois, lover of abstract wealth. In different ways, both seek to master the enormous social force in the figure of value, embodied in the general carriers of it, gold and silver.

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[429] Sartorius von Waltershausen 1907, pp. 23, 24.
[430] Pushkin, *The Covetous Knight* [pp. 154, 156 in *Pushkin Review* (1999), translated by James E. Falen].

Let us return to the characterisation of 'national money'.

Government seigniorage, token coins, inflation of money circulation – these are all phenomena of 'national money'. As Fichte says, a government that can make as much money as it could ever wish 'would from now on even be able to steal the property of those who possess money from out of locked safes, since by increasing the quantity of money in circulation without limit, they can cause its value relative to goods to decrease without limit'.[431]

No wonder the treacherous Mephistopheles, on the advice of whom Faust introduced a monetary system in the interests of the broke emperor, colourfully, and ironically, praises the technical comforts of new money:

> People will no longer plague themselves with purse and bag;
> a paper is easy to carry in the bosom,
> and lies comfortably with a love letter.
> The priest devoutly carries it in his breviary,
> and the soldier, in order to turn himself more rapidly,
> lightens quickly the girdle at his loins.[432]

If, let us repeat, Ricardo and his open or involuntary co-thinkers had clearly realised that in distinction from 'national money' there exists also 'world money', as a special function of money in general, they would have had no reason to create a new, too complex and shaky theory of climatic, natural and other factors of determination of the value of money. They would have, perhaps, been able to *monistically* understand the economic phenomena occurring before their eyes, standing on the viewpoint of the law of value.

We have already said that Ricardo and his followers try to justify national differences in commodity prices, the value of money, the rate of profit and so on, by natural, climatic, psychological and so on, reasons, that prevent free flow of capital from one country to another. Now, in order to avoid misunderstandings, we want to add that *on our side it would be inexcusable light-mindedness to deny any significance to geographic, climatic, national, cultural and other conditions for determination of the rate of profit*, all the more such as the manufacture skill of workers, the level of culture, tax regimes and so on. They make a prominent amendment to the action of the law of value. But their 'diverting'

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[431] Fichte 2012, p. 181.

[432] Goethe, *Faust*. Translated by J.B. Deane.

significance, firstly, should not be exaggerated and overestimated, [and] secondly, must be understood in terms of the unity of world capitalist production relations. We already talked about this earlier.

Much clearer than with value, price, profit, and so on, is the situation with that part of surplus value, which is known under the name of interest rate. As an illustration of how alien to Marx was a one-sided national-economic treatment of the profit rate, price of production and interest rate, we will quote one place from volume three of *Capital*.

Listing the circumstances that contribute to the consolidation of the interest rate,[433] Marx points out 'the far stronger direct influence that the world market exerts on the establishment of the interest rate, independently of the conditions of production in a country, as compared with its influence on the profit rate'.[434]

In the quotation given the following thought characterises the conception of Marx: 1) the influence of the world market on the size of the interest rate is carried out '*independently of the conditions of production in a country*'; 2) the world market herewith has '*direct influence*' on the establishment of the interest rate'.

What is said in this quotation of Marx about the world level of interest fully applies also to the general rate of profit, because the latter is a category of the same order as the average interest rate. Marx directly points to this:

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[433][Marx announces: 'In stressing this distinction between the interest rate and the profit rate, we have so far left aside the following two factors*, which favour the consolidation of the interest rate*: ...' The words we put in italics, which Petrov here paraphrased, were added by Engels to Marx's manuscript (compare Marx 2015, p. 470 with Marx 1981, p. 490).]

[434] Marx 1981, p. 490. [The 2015 translation (Marx 2015, p. 470) repeats the old English translation (based on Engels) of this sentence, but when we consult the German, it is clear that Engels made an edit;

Original Marx: '2) dem viel grösseren unmittelbaren Einfluß, den der Weltmarkt auf die Feststellung des Zinsfusses, unabhängig von den Productionsbedingungen eines Landes ausübt, wenn verglichen mit der Profitrate' (Marx 2012a, p. 440).

Edit by Engels: '2. dem viel größern unmittelbaren Einfluß, den der Weltmarkt, unabhängig von den Produktionsbedingungen eines Landes, auf die Feststellung des Zinsfußes ausübt, verglichen mit *seinem Einfluß auf die* Profitrate' (Marx 1964, p. 380, our italics).

Engels thereby perhaps eliminated other meanings. We just offer two such; The world market (or more specifically, the world credit market) exerts a far stronger influence on the establishment of the interest rate, – stronger that is, as compared to the influence the (domestic) profit rate exerts on the establishment of the interest rate. And (or): The establishment of the interest rate is less directly (or almost not) dependent on conditions of production in a country, than the establishment of the (domestic) profit rate is (directly) dependent on conditions of production in a country.

Even if we stick with the edit by Engels, it is possible to differ with the conclusion Petrov draws from the passage. Dashkovsky summarised the whole context of this Marx-passage as follows: 'However, at any given moment the average interest expresses a determined uniform size, while the average profit exists only as a tendency. This happens, firstly, because loan capital opposes industrial capital as a continuous homogeneous mass, not divided into various industries; secondly, because interest is the price of money capital, established, like any other price, by the direct influence of supply and demand, whereas the equation of profits in the average profit is affected by supply and demand only indirectly through emigration and immigration of capital from one industry to another; thirdly, because interest on capital, as a historical fact, preceded profit, and its value was passed down by tradition; fourthly, because loan capital is much more sensitive to the influences of the world market than the average profit of entrepreneurial capital' (Dashkovsky 1923, p. 127).]

> The rate of interest is related to the profit rate in a similar way as the market price of a commodity is to its value.[435] In so far as the rate of interest is determined by the profit rate, this is always through the general rate of profit and not through the specific profit rates that may prevail in particular branches of industry, still less by the extra profit that the individual capitalist might make in a particular sphere of business. The general rate of profit, in fact, reappears [*appears*] in the average rate of interest as, an empirical, given fact, even though the latter is not a pure or reliable expression of the former.[436]

Thus, the interest rate is so easily leveled by the world market because it is always determined '*not through the specific profit rates*' which can dominate in individual branches of industry (for clarity we, as well as above, should have emphasised: 'or in individual countries'), but through the *general rate of profit*. The latter is the basic determining moment of the price of production.

Conclusion: according to the conception of Marx, as it is developed in volume three of *Capital*, the world market itself represents a single sphere of price-formation, interest rate formation and formation of a general rate of profit. *Not countries, as such, but the enterprises of these countries participate with their individual values and surplus values, with their prices of production and prices in the formation of a single world level of value, price, profit, interest, and so on*.[437]

In chapter twenty-two[438] of volume one of *Capital* there is a place giving rise to a very erroneous interpretation of the whole system of Marx's views. It is that place where the expressions are used: 'unequal international values', 'the relative value of money [is] less in the nation with a more developed capitalist mode of production than in the nation with a less developed mode of production'.[439] Taking out of context these expressions of Marx (the only place to which in general they can refer), Dashkovsky, Ugarov, and besides them many others, allow themselves to develop a whole eclectic theory.

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[435] [The market price is determined by value as the socially general (or average) labour time, not by value as the labour time of a specific business.]
[436] Marx 1981, p. 487. [In the original manuscript Marx used *erscheint* (and put it in italics). See Marx 2015, p. 468.]
[437] [Presumably for Petrov further also a single world price of production, as Goldstein criticised Petrov's earlier book for that position.]
[438] [In Russian version, chapter twenty.]
[439] Marx 1981, p. 702.

To avoid misunderstandings let us quote this chapter in somewhat more detail than the above-mentioned authors do, in particular – Ugarov, and let us see, whether it changes the conception of Marx as it was just expounded. Let us recall that the chapter has an extremely clear name: 'National differences in wages'. This title in itself means something for those who know Marx's aspiration to pointedness and the accuracy of all his expressions. And so, we read:

> [...] In comparing wages in different nations, we must therefore take into account all the factors that determine changes in the amount of the value of labour-power; the price and the extent of the prime necessities of life in their natural and historical development, the cost of training the workers, the part played by the labour of women and children, the productivity of labour, and its extensive and intensive magnitude. Even the most superficial comparison requires the prior reduction of the average daily wage for the same trades, in different countries, to a uniform working day. After this reduction of the daily wage to the same terms, the time-wage must again be translated into the piece-wage, as only the latter can be a measure both of the productivity and of the intensity of labour.
>
> In every country there is a certain average intensity of labour, below which the labour for the production of a commodity requires more than the time socially necessary, and therefore does not count as labour of normal quality. In a given country, only a degree of intensity which is above the national average alters the measurement of value by the mere duration of labour-time. It is otherwise on the world market, whose integral parts are the individual countries. The average intensity of labour changes from country to country; here is it greater, there less. These national averages form a scale whose unit of measurement is the average unit of universal labour. The more intense national labour, therefore, as compared with the less intense, produces in the same time more value, which expresses itself in more money.
>
> But the law of value is yet more modified in its international application by the fact that, on the world market, national labour which is more productive also counts as more intensive, as long as the more productive nation is not compelled by competition to lower the selling price of its commodities to the level of their value.
>
> In proportion as capitalist production is developed in a country, so, in the same proportion, do the national intensity and productivity of labour there rise above the international level. The different quantities of commodities of the same kind,

> produced in different countries in the same working time, have, therefore, unequal international values, which are expressed in different prices, i.e. in sums of money varying according to international values. The relative value of money will therefore be less in the nation with a more developed capitalist mode of production than in the nation with a less developed capitalism. It follows then that nominal wages, the equivalent of labour-power expressed in money, will also be higher in the first nation than in the second; but this by no means proves that the same can be said of real wages, i.e. the means of subsistence placed at the disposal of the worker.
>
> But even apart from these relative differences in the value of money in different countries, it will frequently be found that the daily or weekly wage in the first nation is higher than in the second while the relative price of labour, i.e. the price of labour as compared both with surplus-value and with the value of the product, stands higher in the second than in the first. [...]
>
> It is well known that in Eastern Europe, as well as in Asia, English companies have undertaken the construction of railways, and have, in making them, employed a certain number of English workers side by side with the locals. Practical necessity has thus compelled them to take into account the national differences in the intensity of labour, but this has not brought them any loss. Their experience shows that even if the level of wages more or less corresponds with the average intensity of labour, the relative price of labour (i.e. the price of Iabour in relation to the product) generally varies in the inverse direction.[440]

The mistake of Ugarov and Dashkovsky in the understanding of the quoted chapter lies in the fact that *they did not pay attention to the theme of the chapter as a whole*. Its title: 'National differences in wages' is not by chance. It fully corresponds to the content and intentions of Marx, absolutely does not correspond to the approach of our authors.

Insofar as Marx makes the 'subject-matter' of his research, at least for the time (precisely here, in chapter twenty-two), 'national labour', 'national wages', and so on, all other categories occupy already a mere correlative position, the position of 'predicate'. That is why we meet here *the expression unusual in Marx*: 'the relative value of money [is] less in the nation...', 'unequal international values'. With the help of these extremely convex images [the fact of] 'national differences in wages' becomes clearer. In particular, becomes clear,

[440] Marx 1976, pp. 701–2, 705.

that low wage and cheap labour power are not one and the same.[441] *And in fact this also is the main thought of Marx, the aim of the whole chapter twenty-two!*

The expressions used here (and only here!) do not change the world-economic conception of Marx, on the contrary, they are subject to it and yield the path to it, and consequently, also to all such concepts as 'world money', 'abstract socially-necessary labour' and so on, wherever these concepts are needed. If you want, the latter are more general, the first – particular and subordinate.[442]

8. Nationalism and imperialism

The means of national-economic policy of the modern state are extremely numerous. Each new decade replenishes the arsenal of foreign economic policy with ever new tools and methods of struggle. Harms uses in one place, however, in quotes, an expression that cannot be denied a certain fortune. He says, that we are observing 'the law of growing state activity'.[443] The expression is inaccurate, since it would be better to speak of 'growing national-economic activity', which is carried out in the form of not only state, but also private-economic 'national' measures, such as export premium, the division of the international market between capitalist associations, and so on. The very formulation of Harms evinces his idealistic understanding of the world economy, as something proceeding from state activity, from international agreements.

Sartorius von Waltershausen gives such a description of the modern trade and political arsenal:

> The sovereign state interferes in every phenomenon of the world economy for the purpose of own economic and political power-arrangement. First by facilities within the own country. The most well-known form of this type of intervention is trade policy, but to here also belong the currency of the country, the legislation on settlement and freedom of movement, the patent system, the tariffs on shipping, railways and canals. To political (should be expressed more precisely ‘to state' or ‘to state-political'. *N.P.*) activities are joined private ones: the establishment of special

[441][But Dashkovsky was aware of this point, see our footnote with a quote from Niebyl.]
[442] Even Spektator unexpectedly demonstrated a much more correct understanding of this place than Ugarov and Dashkovsky. See Spektator 1928a, p. 68.
[443] Harms 1920 [no page reference].

> prices for foreign commodities, the formation of syndicates, the organisation of exports, the promotion of immigration, export and import of capital by banks and consortia.[444]

To this list it is necessary to add the distribution of ever grandiose state orders (especially those developed in connection with militarism), export subsidies, agreements on the division of the world market, the provision of state monopolies to individual capitalist associations (for example, the Swedish match trust), the creation of international capitalist associations, customs war, finally, the most real war, which, after all, is nothing more than 'the continuation of politics by other means'.

In addition to the appearance of new forms of national-economic activity, the old forms began to be used much more energetically than before. For example, protectionist tariffs have grown many times and since long have already become in a whole number of industries their opposite – 'aggressive protectionism' (in [Russian] translation: 'offensive patronage'). The same growth process is seen with respect to export premiums, in relation to seizure of new territories, and so on.

It would seem that the national economy is now at the time of its heyday. – However, such an opinion is not right. *Nationalism clearly begins to be supplanted by imperialism*.

In no case does it follow that one should think that the national economy in the era of imperialism begins to become unnecessary, that, let us say, international capitalist associations and agreements that have their own method of the division of markets and the establishment of monopoly prices,[445] no longer rely on delimitation of individual national territories by a high wall of customs duties, that they no longer need a 'national state'. Quite the contrary. The aggravation of class contradictions in the era of imperialism makes the institution of the state even more necessary for keeping public order. The aggravation of the contradictions between the individual capitalist groupings makes everyone increasingly resort to the system of 'national-economic' economic measures. The very formation of international associations and agreements becomes possible only on the basis of national states, bent to the power of oligarchic capitalists, under the power of these or other monopolies. The 'national state' conducts a customs war in the name of imperialist goals. The 'national state' carries out territorial conquests, the division of the world. The 'national state' in the figure of its government sits down for a round-table meeting with

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[444] Sartorius von Waltershausen 1907, p. 3.
[445] [See section five in Lenin 1917.]

representatives of the largest trusts negotiating with them about the transfer of monopoly rights to them for the sale of one or other commodity on the market of a given country, and so on.

It is necessary in general to thoroughly grasp the fact that imperialism is not a 'whole' that has taken the place of another 'whole' – capitalism, that it is only a 'phase of the whole', capitalism.[446] Monopolies exist side-by-side with competition not only on the international market, but also within any national economy.

As example of a stereotyped misconception about the development of the world economy in the era of imperialism can serve the following place from Dashkovsky's book *Market and Price in Modern Economy*:

'Capitalist development, as Marx showed, leads to the fact that national economies are increasingly decaying, dissolving into a single world economy'.[447]

The reference to Marx here is clearly vain. *With the development of capital the role of national economies grows*, despite the more lively international exchange. Capital becomes 'nationalised' more, the more it is drawn into world-economic life and simultaneously becomes 'internationalised'. Internationalisation of capital is a contradictory process: the detachment of national-economies is accompanied simultaneously by their unification. The modern 'national economies' are just as characteristic 'nodes' of world economic relations as they have hitherto been. The more capital is connected with foreign markets, the more it needs support from its 'own' state power.

Dashkovsky here mixes the 'internationalism' of modern relations with 'cosmopolitanism', this long-traversed economic stage of development, which only bourgeois economists can consider forthcoming, upcoming.

For there to exist a 'single world economy', the national economy does not at all have to die out. Precisely the presence of national economies only also creates the world economy. These are not exclusive concepts, but just pole-antagonists of one and the same contradiction – capitalist relations of production, the two sides of one and the same medal.

However, we must understand also another feature of the modern world economy. From the fact that national economies, contrary to Dashkovsky, certainly do not 'dissolve', 'decompose' in a single world economy, it by no means follows that they retain all their former independent significance, that nationalism, the national movement still constitutes the main goal of bourgeois society, something that continues to be progressive.

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[446] [The definition of 'imperialism' as a phase of capitalism is Lenin's.]

[447] Dashkovsky 1925a, p. 109. [We could not consult this book of Dashkovsky, but the reference to Marx could be for example passages in the *Communist Manifesto*.]

The flourishing period of 'national fatherlands' continued almost a hundred years (1789–1871). In the last quarter of the nineteenth century and the beginning of the twentieth the collapse of the bourgeois fatherland was gradually brewing, which also broke out with the imperialist war of 1914–18. The national movement was at one time a progressive liberation movement of the bourgeoisie, which very often also the workers' movement quite consciously could support. This was a movement, mainly directed against feudalism, for the free development of productive forces in capitalist form.

The 'old imperialism', the imperialism of ancient Rome or eighteenth century England was largely alien to industrial capitalism's board of activities. It was, if one may put it like this, 'trade-capitalist imperialism', against which industrial capital rose. 'In the period of Manchesterism colonies were considered in England as a remainder of the old aristocratic system, more harmful, than useful'.[448]

Colonies were considered millstones, tied to the neck of a large nation, which just drown it. The more widely domination of industrial capital spread in Europe, the more fashionable and widespread these views became apparent. 'In the middle of the last century, from the 1840s to 70s, one cannot observe any significant colonial acquisition'.[449]

This does not mean that capitalist national economies did not have any interest in the pre-capitalist periphery. This interest was large enough. But it resulted in the peculiar system of the foreign economy policy of Manchesterism, in the system of *free trade and open doors*. England, which played the role of leader among the national economies of the nineteenth century, did not obtain anything in its wars with China in 1840, 1856 and 1860, expect that China, this greatest potential market, opened access to itself to trade of *all nations*. The slogan of 'open doors' for a long time remained the guiding principle in the establishment of mutual relations with backward countries: Turkey, the Belgian Congo, and so on.

With the development of capitalist trusts, syndicates and cartels, colonial policy enters a new phase. Unlike the days of Disraeli now it is considered a boon *to seize as many colonies as possible*. The whole world is divided among the great powers. The epoch of national movements, the heyday of the national economy is left behind. It is already a past stage. 'National narrowness' is not replaced by the imperialist wide sweep to then undergo a reverse movement.

Proceeding from the trend of economic development, we should say: not 'backwards, to the national fatherland', as the Social Democrats call [for], – this now already reactionary slogan

[448] Kautsky 2013 [we have not traced the corresponding page numbers].
[449] Kautsky 2013 [in Russian 1900 edition, p. 42].

– but 'forward, to the social revolution' – this is the task of the present day, pursued by the world proletariat.

From the historical viewpoint the war of the 'national' bourgeois state fulfilled one important mission: it was objectively a war against feudalism which has not yet left power and economic domination in other countries. Therefore the working class could not relate just as negative to 'national' wars as for example to the imperialist war. In Lenin we find such a comparative characterisation of national and imperialist wars (written in 1915):

> We Marxists differ from both pacifists and anarchists in that we deem it necessary to study each war historically (from the standpoint of Marx's dialectical materialism) and separately. There have been in the past numerous wars which, despite all the horrors, atrocities, distress and suffering that inevitably accompany all wars, were progressive, i.e., benefited the development of mankind by helping to destroy most harmful and reactionary institutions (e.g. an autocracy or serfdom) and the most barbarous despotisms in Europe (the Turkish and the Russian). [...]
>
> The Great French Revolution ushered in a new epoch in the history of mankind. From that time down to the Paris Commune, i.e. between 1789 and 1871, one type of war was of a bourgeois-progressive character, waged for national liberation. In other words, the overthrow of absolutism and feudalism, the undermining of these institutions, and the overthrow of alien oppression, formed the chief content and historical significance of such wars. These were therefore progressive wars. During such wars, all honest and revolutionary democrats, as well as all socialists, always wished success to that country (i.e. that bourgeoisie) which had helped to overthrow or undermine the most baneful foundations of feudalism, absolutism and the oppression of other nations. For example, the revolutionary wars waged by France contained an element of plunder and the conquest of foreign territory by the French, but this does not in the least alter the fundamental historical significance of those wars, which destroyed and shattered feudalism and absolutism in the whole of the old, serf-owning Europe. In the Franco-Prussian war, Germany plundered France but this does not alter the fundamental historical significance of that war, which liberated tens of millions of German people from feudal disunity and from the oppression of two despots, the Russian Tsar and Napoleon III.
>
> 'The period of 1789-1871 left behind it deep marks and revolutionary memories. There could be no development of the proletarian struggle for socialism prior to the

> overthrow of feudalism, absolutism and alien oppression. When, in speaking of the wars of such periods, socialists stressed the legitimacy of “defensive” wars, they always had these aims in mind, namely revolution against medievalism and serfdom [...]
>
> But imagine a slave-holder who owns 100 slaves warring against another who owns 200 slaves, for a more “just” redistribution of slaves. The use of the term of a “defensive” war, or a war “for the defence of the fatherland”, would clearly be historically false in such a case and would in practice be sheer deception of the common people, philistines, and the ignorant, by the astute slave-holders. It is in this way that the peoples are being deceived with “national” ideology and the term of “defence of the fatherland”, by the present-day imperialist bourgeoisie, in the war now being waged between slave-holders with the purpose of consolidating slavery.[450]

Not a naivety, but a falsehood is given by the bourgeois interpretation of this 'national state'. Still in 1922 there could appear among us *textbooks for Soviet higher educational institutions*, in which the position could be defended that 'the state is the *power of the organised people*', that 'states are closed and independent, not only political but also *economic bodies*'.[451]

The same bourgeois viewpoint is pursued, in essence, also by the "Marxist" Cunow, when he claims that the thesis –

> ‘The proletariat does not have a fatherland’ is correct only as long as the working class has no influence on matters of its ‘nation’. Let us recognise that the situation of the German workers in this sense changed unto the time of the imperialist world war, and that therefore the German social-chauvinists were right when they called German workers to ‘defence of the fatherland’.[452]

The first thing that the "Marxist" Cunow misses, is that only the struggle with threats of the feudal regime could call workers and socialists to the defence of the fatherland, but not at all the task of partition and redivision of the world, national-patriotic noise about 'liberation of Slavic brothers', 'Orthodox Armenians' and so on.

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[450] Lenin 1915, pp. 299–301. See also Lenin 1930, *New articles and letters*, pp. 9, 10 [not available to us].
[451] Magaziner 1922, pp. 5, 6.
[452] Cunow 1923 volume 2, pp. 30, 31.

The second circumstance, completely 'incomprehensible' from the viewpoint of Cunow and all bourgeois and petty-bourgeois economists without exception, is the process of growth of the *productive forces* of capital, which has long been made a characteristic feature of our time of *internationalism*, and not of the nation. The productive forces have outgrown the framework of both private property and state borders. States are not at all 'closed and independent economic bodies', and therefore the struggling classes, if they do not want to play a reactionary role, should not at all restrict themselves to 'winning decisive power in a given economic system', but set *international tasks* before them. But of all classes only the proletariat by its own situation is prepared for the fulfilment of this task.

Internationalism differs from cosmopolitanism by the fact that in the first there are nations, national economies as constituting elements, whereas in the second there are none. Both capital in its international expansion and the working class in its international activities rely on the national economy, but this is done in diametrically opposite ways. Capital uses the national state as a means and as an object of its exploitative activities, as a tool for its goals. The proletariat, 'victorious initially in one separate country',[453] makes the state of this country its own state in such degree that it acts as carrier of the new revolutionary principle in a capitalist world divided by contradictions.

Everyone knows the ideas developed by Lenin on this subject in his polemic against Trotsky's proposals about a 'United States of Europe'. Less known is one of Marx's letters to Engels (dated 20 June 1866), where the question of indifference of the 'national economy', 'the nation' for the international struggle of the proletariat is touched too. Marx wrote:

> There was a debate at yesterday's meeting of the International Council about the present war. [...]
>
> The representatives of '*jeune France*' (*non-workers*), by the way, trotted out their view that any nationality and even nations are '*des préjugés surannés*' [old prejudices]. Proudhonised Stirnerianism. Everything to be broken down into small '*groupes*' or '*communes*', which in turn form an 'association', but not a state. Furthermore, this 'individualisation' of mankind and the '*mutualisme*' it entails are to proceed by bringing history to a halt in every other country and the whole world waits until the French are ready to carry out a social revolution. Then they will demonstrate

[453] [Probably a reference to Lenins 'The Military Programme of the Proletarian Revolution', written 1916: '... socialism cannot achieve victory simultaneously *in all* countries. It will achieve victory first in one or several countries, while the others will for some time remain bourgeois or pre-bourgeois'.]

> the experiment to us, and the rest of the world, being bowled over by the force of their example, will do the same. [...]
> The English laughed heartily when I began my speech with the observation that our friend Lafargue, and others, who had abolished nationalities, had addressed us in '*French*', i.e., in a language which 9/10 of the audience did not understand. I went on to suggest that by his denial of nationalities he seemed quite unconsciously to imply their absorption by the model French nation.[454]

Internationalism and world economy is not a denial and negation of 'nation' and 'national economy'. The latter are 'nodes' of the world economy and the international [workers'] movement, and should be used by the proletariat for new tasks, higher, than the bourgeoisie set itself even in the epoch of the maximum flowering of its creative powers and abilities, [that is] in the epoch of its readiness to act in a revolutionary way.
We have come close to some of the most important provisions of the *programme of the Communist International*. In the sections considering the question on the conquest of power by the proletariat and on the struggle for the world dictatorship of the proletariat, the program says:

> The *dictatorship of the world proletariat* is an essential and vital condition precedent to the transformation of world capitalist economy into socialist economy. This world dictatorship can be established only when the victory of socialism has been achieved in certain countries or groups of countries, when the newly established proletarian republics enter into a federal union with the already existing proletarian republics, when the number of such federations has grown and extended also to the colonies which have emancipated themselves from the yoke of imperialism, and when these federations of republics have grown finally into a World Union of Soviet Socialist Republics uniting the whole of mankind under the hegemony of the international proletariat organised as a State.[455]

This thesis is directed not only against the social-compromisers and Trotskyists, who would like to 'refrain' from proletarian revolutions in individual countries until the world revolution 'comes along', who would like to 'wait' for a simultaneous revolution in all

[454] Marx 1987, p. 287.
[455] The Programme of the Communist International 1929, chapter four. Sixth Congress of the Comintern.

countries, that is in essence –who would like to abandon revolution under a pretext. The thesis is directed simultaneously against all those who underestimate national economies as 'nodes', 'links' (of the world economy), which the proletariat must master in a first turn, in order to be able to act in the figure of a 'proletariat organised as a state'.
In another place in the program of the Comintern we find an even clearer indication:

> The international proletarian revolution represents a combination of processes which vary in time and character; purely proletarian revolutions; revolutions of a bourgeois-democratic type which grow into proletarian revolutions; wars for national liberation; colonial revolutions. The *world dictatorship* of the proletariat comes only as the *final result* of the revolutionary process.
>
> The uneven development of capitalism, which became more accentuated in the period of imperialism, has given rise to a variety of types of capitalism, to different stages of ripeness of capitalism in different countries, and to a variety of specific conditions of the revolutionary process.[456]

These specific conditions of the international revolutionary process we will not understand, if we do not set ourselves the task of studying national economies. For in the first period of the revolution, as Lenin emphasises, correcting Bukharin, the proletarian state will represent itself a '*nationally*'-organised working class.[457]
According to the extremely precise expression of Stalin, 'individual countries and individual national economies have ceased to be self-sufficient units, have become *links* in a single chain called world economy'.[458] How not to remind in this regard our 'nihilists' in the domain of national economy of Lenin's teaching about the link, which it is necessary to grasp.[459]
The proletariat, which entered the epoch of proletarian revolutions, boldly fights for those 'links', 'nodes' of the world economy, which national economies represent. However, unlike the epoch of national movements, it sets itself *international* tasks.

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[456] The Programme of the Communist International 1929, chapter four.
[457] Lenin 1929, p. 35. [This comment is on Bukharin's phrase: 'the collectively organized working class', see Bukharin 1979, p. 134.]
[458] Stalin 1924, 98–9.
[459] 'It is not enough to be a revolutionary and an adherent of socialism or a Communist in general. You must be able at each particular moment to find the particular link in the chain which you must grasp with all your might in order to hold the whole chain and to prepare firmly for the transition to the next link; the order of the links, their form, the manner in which they are linked together, the way they differ from each other in the historical chain of events, are not as simple and not as meaningless as those in an ordinary chain made by a smith' ('The Immediate Tasks of the Soviet Government', 1918).

The very setting of these international tasks, and together with them – also the ability to resolve them, are characteristic only for the international proletariat.

Chapter Four

'Classes and Masses in England in their Relations to Foreign Trade' (Ignatij Granat)[460] (1927)

Isaak Dashkovsky

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The title of the book is somewhat puzzling ('classes and masses') and does not entirely correspond to its content.[461] The economic history of England and the struggle of tendencies in English political economy, since the seventeenth century, has been used by the author mainly as material for the construction of an original theory of imperialism and capitalist expansion. In this theoretical construction lies the main interest of the work. The concrete part of the study represents, in line with this, an independent interest due to the abundance and skillful use of facts, among which the author easily and freely navigates. Granat is not a novice in matters of English economy. To his pen belongs the old work published in 1908 *Contribution to the Question of the Land Deprivation of the Peasantry in England*. In some respects the reviewed book is a continuation of that old study, in which the author tried to contrast Marx's conception of the agricultural development of England with his own.[462] Here, our primary interest lies in the theoretical 'backbone' of Granat's book.

The author begins with the formulation of the 'infernal question': why did the world war arise? And since the war is in the most obvious way connected with capitalist expansion into backward countries, then what is the main driving force behind this expansion? And, finally, if 'classes' (the ruling ones) are interested in imperialism, why did the 'masses' (the proletariat) assist them in the world war?

Before expounding the theoretical consideration of the author regarding 'workers' imperialism', let us turn to the question of how he explains the imperialism of the bourgeoisie.

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[460] [Dashkovsky 1927e. Ignatij Granat (1863–1941) was a Russian publisher, known (with his brother) for the *Granat Encyclopedia* in which Lenin wrote the entry on Karl Marx.]

[461] [Content: Chapter I. The problem: war, trade interests, and the interests of the proletariat. II. Capitalism and export industrialism. Toward a theory of the question. III. The English market of sales and supply. IV. Capitalism and export industrialism in England. V. Export industrialism and wages. VI. Differentiation of the working class and distribution of national income. VII. The basis of the wage. VIII. The struggle for markets and the localisation of world industry. IX. Prospects for export industrialism. X. Conclusion. XI. Footnotes. The book is 192 pages long and has 405 footnotes.]

[462] [Granat's thesis in political economy at Moscow University in 1908, 326 pages.]

Granat equates imperialism with 'expansion of industrialism'. The pursuit to seize markets for the sale of industrial commodities – that is the very essence of the imperialism of our age, in contrast to the imperialism of trade capital which placed the interests of *supply* as its cornerstone. Comparing the figures of exports and imports of England, he shows that the English colonies are primarily and mainly *sales markets* for the metropolis. The same Britain imports commodities mainly from non-colonial countries. Conversely, exports of commodities from the English colonies are sent for the most part not to England, but to other countries. Thus, the interests of commodity export are the *basis* of colonial policy. In comparison with them *capital export* plays a subordinate role. Granat devotes very little attention to the *export of capital*, treating it as a *quantité négligeable*. The income from capital investment abroad constitutes, according to his calculations, not more than a tenth of all income of the British bourgeoisie. Consequently, the driving force of imperialism lies not here, but in those nine-tenths of income, that are extracted from domestic industry, relying on foreign markets. That is the first 'original' feature of the Granatian theory of imperialism, which in this respect is directly opposed to [John] Hobson's theory of imperialism which stressed the export of capital.

But what makes industrial capital look for foreign markets? Of the two theories of foreign trade mentioned by Granat – the theory of the classics and the theory of Luxemburg – he does not accept either one, or rather, takes a little of each. From the classics – Smith and Ricardo – he borrows the explanation for the foreign trade aspirations of industrial capital by considerations about the *rate of profit* (foreign trade contributes to an increase in the rate of profit, or in any case prevents its decline). From Luxemburg he borrows the theory of the significance of non-capitalist countries for capitalism (giving it a different twist). In the classical theory he rejects the principle of *supply*, from which Ricardo proceeded (the import of cheap agricultural products and raw materials, which contributes to a fall of wages and increase of profits). In the theory of Luxemburg he rejects the argument that explains the pursuit of external markets by the need to realise surplus value. The construction of Granat himself boils down to the following. Capital moves in the direction of the highest profit. The profitability of capitalist production – in those branches and in that epoch when capital still operates side by side with artisans and handicraftsmen, is determined by the degree of increase of labour productivity achieved when manual labour is replaced by machine production and is realised in exchange. If for example a power loom increases output fourfold compared to a manual weaver, and if the production of cloth, produced both manually and by machine is realised on the market, then the market value will be

determined by the expenditure of labour in artisanal production. Because of this, manufacturers who produce cloth with the help of machines will in fact exchange one day of their labour for four days of the labour of artisans and handicraftsmen. This unequal exchange does not at all violate the principles of equivalence, and forms a source of capitalist profit. However, if in all branches the application of capital provided *simultaneous growth of productivity*, then capital, distributing mechanical means of production throughout, again would be restored to the previous proportion. The result would only be a gradual displacement from everywhere of petty production, which, exchanging its labour by such unequal norms, soon would prefer to go into wage labour and become the subject, although also direct, yet of less harsh exploitation from the side of capital. But the point is that in different branches the increase of labour productivity as a result of transfer of capital by far is not the same. Hence also different rates of labour exchange between capitalists and petty producers in different branches. The highest rate of profit is obtained in those branches where the technical means bring the highest productive effect. Therefore also capital rushes firstly into them. It decides to go to a different, less productive branch only under the influence of the circumstance when the more productive [branch] is completely utilised, the labour of petty producers has been completely displaced from it, and market value begins to be determined by the costs of capitalist, [and] not handicraft production. But with the move to another branch, which gives an increase in productivity, for example, by only three times, the exchange proportion with petty producers, and with it the profit rate, decreases accordingly. Since the rate of profit in this *marginal* branch determines the general rate of profit, it is clear that any move to less promising sectors entails a tendency in the rate of profit to a fall. *Hence the pursuit of capitalism to utilise as widely as possible the most productive spheres*. If the production in these spheres outgrows the national framework, then capital will strive to expand the limits of the sales of the corresponding commodities abroad. The wider the sales markets, the longer it can stay in the most productive sectors, leaving the rest to petty production. Therefore at the dawn of capitalist development we notice the predominance of its kind of '*monoculture*'. Therefore there occurs as it were a creeping, gradual spread of capitalism – from more productive to less productive branches. Therefore capitalism is least willing to go into agriculture, which represents the least favourable conditions for the increase of productivity and growth of profit. Therefore, finally, industrial capitalism strives to expand the area of sales, leaving agriculture to petty producers. On the world market the same laws of exchange operate which inside every country condition capital's exploitation of petty production. Backward countries give more

of their labour for a smaller amount of labour of advanced countries, although – according to the law of Ricardo–Torrens [of comparative advantage] – such an unequal exchange for them is still more profitable than the absence of any exchange. Industrial capitalism leaves to these backward nations the least developed productive activities – in particular agriculture, – concentrating its own resources in industrial production. Especially in England the prevailing industrial direction of its development is explained [further] also by the circumstance that its heavy soil made agriculture relatively less productive than, for example, in France and the United States. Close to the English type of development is Germany. The main cause of English industrialism Granat therefore considers not to be the attributes of the [sea] coast, not the geographical position and so on, but the attributes of the *soil* that make agriculture relatively less productive, although on the other hand the existence of wealthy peasants in England (a result of common heritage and so on) was a main condition for the development of the textile industry, which operates on a mass market. In purely agronomical causes – favorable conditions for farming – Granat sees also nowadays for France and the United States the exclusion of a one-sided industrial direction. The surplus of capitals in these countries, insofar as they cannot find any application in agriculture, will not go to industrialisation, but to export abroad. Industrialisation presupposes export of commodities, but export of industrial commodities is impossible without the import of agricultural products, which the named countries do not lack. For these countries Granat agrees to recognise the importance of capital export, which he denies for England. For industrial capitalism, therefore, it is not exporting as such which is important, but exporting precisely to *backward* countries. That is why as colony in the economic sense should be recognised that country, which in exchange with other countries, undergoes exploitation, whose labour is not paid for by an equal amount of labour of another country. Because of this, colonies are all agricultural countries, countries of small independent production, to the extent to which they export their agricultural products, – colonies of that industrial country from which they import the most products of capitalist industry, or more precisely, colonies of the whole set of capitalist countries. And since there is no absolute need to grab a country into political possession for the sale of commodities, then

> because of this, imperialism of the capitalist epoch differs from imperialism of the pre-capitalist agrarian epoch by the fact that it does not necessarily seek to seize countries of non-capitalist economy; it also does not pursue the monopolistic use of

> their resources, as is characteristic of the epoch of trade capital, but aims to secure the most profitable conditions of sale and therefore, primarily, has in sight the attainment of spheres of influence, of economic but not political subordination.

In all this theory there are so many vulnerable places that one has difficulty in choosing where to start. For fairness, we start with what is *positive* in it. To this it is necessary to relate the by the author emphasised role of unequal labour exchange between countries at different stages of development of production forces. This side of the question indeed is often neglected in analysis of the forms of imperialist exploitation, although to it already the classics pointed, proceeding, however, from other considerations. In part, one can also agree with the author that different branches of the economy represent for capital *different* benefits, from the viewpoint of unequal labour exchange. It is absolutely true therefore that it is not a matter of indifference to the national capital in which branches the greatest quantity of means of production and labour is engaged. The observation of these facts, and in part also their theoretical explanation is the undoubted merit of the author. But he embarks on a completely monstrous exaggeration with the attempt to depict *this* method of increasing rates of profit, as the *only* driving force of capitalist expansion. Wishing to reinforce his conclusions with factual material, Granat failed to do the main thing: he did not show with facts and figures in hand, that an increase in profits, due to unequal exchange, outweighs in its mass all other sources of increase, among which profits from capitals exported abroad occupies a rather honourable place. Granat refers to the circumstance that the income of the British bourgeoisie from capital invested abroad is only equal to one-tenth of all income. But in fact the remaining nine-tenths are received not as a result of industrial exports, of 'unequal' exchange, but as a result of exploitation of labour of workers *within the country*. For comparison of the relative role of commodity and capital export, it would have been necessary to juxtapose the profit in *export* branches of the economy (and then only in that part of the production that these branches actually export) and the profit from investments made abroad. The conclusions obtained would be directly opposite to those that Granat makes. Voluntarily or involuntarily the theory of Granat contains the tendency that the *main* source of surplus value, which is delivered to the capitalist class, is *petty production, and not the working class*. We will see how this tendency correlates with the views of the author on the nature of wages and so on. Such an 'approach' completely distorts the meaning and perspectives of the class struggle and puts the *petty bourgeoisie* on the front stage in the struggle against capitalism not only as the most *suffering* class, but also as the class that

delivers capital the bulk of surplus value. The theory of Granat is, in this way, a variety of petty-bourgeois criticism of imperialism, similar to how Sismondism was a petty-bourgeois criticism of capitalism.

The inaccuracy of the conclusions are based to a large extent on the error of the initial viewpoints. So Granat's position remains completely arbitrary and without proof, that the market value of commodities is determined by the costs of their production in petty production there where the latter has not yet been ousted and works alongside large-capitalist enterprises. This is an unfounded attempt to connect the theory of labour value of Marx with the 'theory of margins', which Granat also sets as the basis of his analysis of the movement of the profit rate: the latter would also gravitate toward the profit rate in the marginal industries. This proposition fundamentally contradicts Marx's theory of socially-necessary labour, which precisely in *industrial* production coincides with the majority of cases with *average* production costs. If things were different, then it would not be clear how large-scale production could *supplant* the small. The whole 'key' also consists of the fact that petty production is forced under the influence of competition to sell its products at prices below the individual value.

A metaphysical role is played in the construction of Granat by *technical* properties of each production branch. In his opinion distribution of capital between different branches *is determined* by the degree to which the capitalist organisation of production is capable of raising productivity in comparison with manual labour. But Granat does not see the *inverse* dependence – of labour productivity on the given branch's degree of saturation with capital. But meanwhile in the process of the progressive movement of the economy this inverse relation becomes more important than the direct one. If initially the cotton industry attracted the greatest amount of capitals because they gave the highest productivity effect here, then in metallurgy, for example, – and the same in the textile industry, – it further on was the other way around: it was precisely the inflow of capital that revolutionised technology and far extended the boundaries of 'productivity' of capital. On the other hand, it is completely incorrect to portray the matter as if capital seizes one branch of industry after another in the order of decreasing profit rate and decreasing productivity. Here is left out of sight the *material relation* of production. The move of capital from light industry (textile) to heavy industry (metallurgy) was not caused by a drop in the profit rate in the textile industry to its level in metallurgy, but by the 'simple' circumstance that the development of light industry itself came across the necessity to increase production of metal in quantities which were completely unobtainable to petty entrepreneurship. It was precisely this circumstance

through the price mechanism that caused the corresponding changes in the rates of profit and in the distribution of capital between branches. The matter here, thus, lies not in the notorious 'productivity of capital'. The weak inflow of capital into farming, which Granat (and many others) explain by inadequate 'productivity' of agricultural capital in comparison with manual labour, in fact has, among many other reasons, as reason that, due to the condition of consumption of agricultural products, their production must by necessity lag behind industrial products, and will always lag behind quantitatively. 'Productivity' also here has nothing to do with it, and this is proved by the fact observed by Granat himself that English agriculture, conducted on a hard soil, is of a more *capitalistic* character than anywhere else.

Against Granat's assertion that the imperialism of our epoch has essentially an industrial-export character and does not set itself the goal of political domination over colonies, one can say, the stones scream. The author completely ignores the fact that the country of largest commodity export – England, is together with that the *first country by capital export*. He overlooks the fact that countries, such as France and the United States, who do not belong to the type of export industrialism, play an important role in imperialist politics and were the main participants of the imperialist war, whose roots Granat seeks only in the interests of industrial export. Just as wild, in light of for example oil imperialism or the struggle for rubber, sounds Granat's claim that imperialism is not at all interested in colonies, as sources of *supply* – not to mention the theoretical weakness of this provision: after all 'supply' – is also that 'equivalent' which the industrial country receives from the colony by way of 'non-equivalent exchange'. How can one, asserting interest [that is economic benefit] in exchange, deny interest in 'supply'? The author fixes his attention on one source of increase of the profit rate – industrial export, omitting from view that *all moments* of the capital circuit affect this rate, including therein also the moment of supply of cheap raw materials, and many others, and that capitalism does not at all need to give one source exclusive reverence before others.

Finally, the last theoretical blunder of the work of Granat – is the explanation of the tendency of the rate of profit to fall by the fall of productivity of capital investments. This coarse error of the classical school was uncovered a long time ago by Marx, who showed that the matter here is exactly the opposite, and gave an ingenious 'simple' explanation of this paradox. Granat now pulls out again this old rubbish, trying to illuminate it with a new viewpoint. The conception of Granat again is connected with his theory of the origin of surplus value. The highest rate of profit is obtained in those branches where capital to the largest degree enhances labour productivity, conditioning therewith the most profitable rate of exchange

with petty production. By extent of the move to less productive branches, the rate of exchange deteriorates and profit falls.

Granat of course knows that hired workers 'too' are a source of surplus value and that the magnitude of the rate of profit depends on the rate of exploitation of *wage* labour. But instead of seeing here the *basis* of the capitalist system, he depicts the degree of exploitation of workers, as a *derivative*, determined directly by the degree of exploitation of petty production. That share of labour which the worker gives for free to the capitalist, in total and as a whole must equal the surplus labour which the petty producer gives the capitalist without any equivalent in conditions of market exchange. If it were greater, then the petty producer, in Granat's opinion, would have no point to switch to the factory. If it were smaller, then all petty producers would become wage labourers. This 'osmosis' of the labour force, which occurs between petty and capitalist production, leads to it that the *income of the small independent producer* becomes the 'base' of wages. Wherever the former becomes impoverished and ruined, wages will stand only at a [below-]subsistence level. And, conversely, a well-fed petty producer, a rich peasantry is a necessary condition for a high standard of living for workers. Proceeding from these considerations Granat explains the fact of the improvement of the life of English workers since the second half of the nineteenth century, by the influence of emigration from England to the United States, Canada, Australia, and so on. The prosperity of the American farmer conditioned a high standard of living for the English proletariat, their ability to withstand the pressure of capitalism. But since fluctuation of the emigration figure, affecting wages, in turn was due to the state of the British export industry, and since, in fact, the movement of wages reveals a correlative link with export of manufactured commodities, then we must also here look for the roots of 'workers' imperialism', or to put it more precisely – the cause, which conditioned the non-resistance of the British proletariat to the imperialist policy of the bourgeoisie. If the increase in wages, beginning with the 1850s, was the result of emigration to the United States, then, conversely, its fall in the first half of nineteenth century was the result of the emigration of ruined Irish farmers to England. In both cases, the wage was determined by the standard of living of the petty producer–farmer. Granat even goes so far that he explains the difference in pay for skilled and simple labour (in the United States) due to the fact that skilled labour forces are supplied by wealthy farmers, and simple labour by poor farmers. Stratification of farmers by income is put in parallel with stratification of workers by pay and finds here a complete correspondence.

Here again truth is mixed with untruth. The influence of petty production on the wage level is unquestionable, and there is nothing new in this statement. But depicting the matter as if the move from one state to another is a matter of free will, is completely absurd. It is true that in countries where petty production *prevails*, where capitalism takes only the first steps, the level of wages is determined by the position of the petty producer. But this is absolutely untrue for developed countries. Here, on the contrary, the wage of workers is the 'basis' that determines the income of petty producers, and not the reverse. The wage itself is determined by the laws of *capitalism and the class struggle*. The parallelism between the position of workers and petty producers exists, but only within certain limits. Granat undoubtedly exaggerates the extent of this parallelism, and the figures cited by him contradict his own conclusions. The role of emigration in the movement of the English wages was noted earlier in the literature (for example by Parvus), but everything cannot be reduced to it, since nevertheless the number of emigrants is negligible in comparison with the number of active workers, and consists of only one-third to one-fourth of the number of unemployed. In addition Granat does not take into account the number of immigrants in England. Finally, Granat contradicts himself when, on the one hand, he tries to prove that the participation of workers in imperialist policy is a 'great mistake', and on the other – observes an unquestionable, albeit indirect, link between the situation of workers and industrial exports. All this shows that Granat raised the question of the roots of opportunism in the working-class movement, but did not solve it, although in his search for the answer the author managed to give a lot of interesting material and in places found an original approach to

solving problems.[463] The influence of migration on the position of workers undoubtedly deserves more attention than is now given to it in the literature.

The last chapter of Granat's book is devoted to prospects. He sees in industrialisation of the colonies the most important cause of the world crisis, insofar as thereby the existence of industrial countriesis is undermined, while the reduction of emigration over the ocean deprives the industrial workers of the 'fallback basis'. The outcome of the crisis Granat sees – in cessation of this industrialisation and by the old division into industrial and agrarian countries. But for this it is necessary that the capital, exported from industrial countries, goes not to organisation of industrial enterprises in colonies, but for the technical reorganisation of agriculture in them. But since agriculture is the least productive branch, it is impossible to count on such a direction of development within the limits of capitalism, which is interested in the extraction of the maximum of profits, and the task of returning industrialising countries to the path of pure agriculture should become a task of the socialist revolution. This conclusion is no less controversial than all the previous ones, and differs from them by being even less justified. A division of labour between countries, of course, is necessary, and it can only obtain a normal character under socialism, but it is entirely absurd to consider division between industry and agriculture – as the only rational form of territorial specialisation. In the end agriculture itself should become only one of the branches of industry among others.

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[463][The position of Dashkovsky, which he repeated in a 1970 letter, was identitical to Lenin's in 1920, namely that opportunism in the Western working-class movement has an economic basis, namely super-profits from capital export. This position is counterposed to the explanation that opportunism is merely due to imperialist propaganda or anti-communist conviction.
Arguing against the notion that imperialism benefits the working class, the Dutch Marxist Sam De Wolff (1878–1960) held that, given the predominance of the department of means of production over that of the department of workers' consumption (agriculture and so on), the former's export of capital to non-capitalist countries meant the latter's social forces of production became fettered due to missed investment, so in the next cycle of accumulation, less means of consumption are produced than necessary for the growing number of workers, hence absolute immiseration of workers in capitalist countries (see De Wolff 1915, pp. 477–8).
Elsewhere Lenin too recognised the poverty of the masses in the Western world, naming it even as a *cause* for capital export: 'It goes without saying that if capitalism could develop agriculture, which today is everywhere lagging terribly behind industry, if it could raise the living standards of the masses, who in spite of the amazing technical progress are everywhere still half-starved and poverty-stricken, there could be no question of a surplus of capital. This “argument” is very often advanced by the petty-bourgeois critics of capitalism. But if capitalism did these things it would not be capitalism; for both uneven development and a semi-starvation level of existence of the masses are fundamental and inevitable conditions and constitute premises of this mode of production. As long as capitalism remains what it is, surplus capital will be utilised not for the purpose of raising the standard of living of the masses in a given country, for this would mean a decline in profits for the capitalists, but for the purpose of increasing profits by exporting capital abroad to the backward countries. … The need to export capital arises from the fact that in a few countries capitalism has become “overripe” and (owing to the backward state of agriculture *and the poverty of the masses*) capital cannot find a field for “profitable” investment' (Lenin 1917, pp. 241, 242, our emphasis). But as to Lenin's mention of the lagging behind of agriculture, recall the criticism Dashkovsky just made of Granat. Compare the criticism against Spektator in Dokukin's chapters later in this volume.]

For all the shortcomings and contradictions, Granat's book nevertheless represents a serious scientific study – reveals a wealth of erudition of the author. From this viewpoint it represents undoubted interest.

Chapter Five

'The Export of Capital' (Charles K. Hobson) (1928)

Isaak Dashkovsky

Charles Kenneth Hobson was born in 1887. Hobson's book, published in 1914, was his thesis for the degree of Doctor of Science at the London School of Economics. The Russian translation of Hobson's book (pp. 261) had an introduction by Spektator.[464]
Dashkovsky wrote the following review under his pseudonym 'A. Svetlov' in the journal *Planovoe Chozjajstvo* [*Planned Economy*].
Another reviewer, Romanskij-Strazhevskij (1893–1938), of this Russian translation of Hobson's book was critical of Spektator's introduction. See for a critique of Spektator also Dokunin's articles (our chapters seven and eight).

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The export of capital is one of the main attributes of the imperialist epoch. It would seem that the analysis of this phenomenon should have attracted special attention of Marxist theorists, economists, confronting problems of imperialism. However, oddly enough we still do not have in our literature *one independent study on this issue*. All that Marxist thought gave apropos this, is scattered in various *general* works on imperialism and finance capital, among which the works of Lenin and Hilferding occupy the main place. Somewhat more attention was drawn to the more specific and concrete topic of the role of foreign capital in the national economy of pre-revolutionary Russia.[465]
All that has appeared with us [in Russia] on questions of capital migration over the last few years, too predominantly carries a narrow monographic character. In such spirit a number of studies were written by Harold Moulton and his colleagues[466] on the balances of trade and payments [*raschetnom*] of different countries in connection with the problem of European debt, [or] by Harvey Fisk – on inter-ally financial relations after the war. To the same category can be ranked Eugen Varga's periodic surveys of the conjuncture. Thus, Hobson's

[464]Spektator 1928b.
[465][Incidentally, Finn-Enotaevsky 1911, pp. 472–88 extensively criticised Kautsky's views on the role of foreign capital in Russia, for example, Kautsky's semi-Narodnik view on its role as wholly retarding Russia's development (forgetting that interest payments on foreign loans still are merely a *part* of generated surplus-value), or, the erroneous view about foreign capital as predominating in industry, whereas in reality there was a domestic (independent) Russian industry (and a Russian bourgeoisie).]
[466][At the Brookings Institute of Economics.]

book itself fills, in the literal sense of the word, an empty place (let us note, by the way, that this is not the Hobson who is known to us as the author of *Imperialism*,[467] *The Evolution of Modern Capital* and other works). In England it was released still in 1914, and summed up then some conclusions of that span of historical development, which ended with the beginning of the imperialist war. In the Russian edition it is supplemented by Hobson's article on 'Export of Capital in Relation to Unemployment', written in 1925. The book produces the impression of diligent research, carefully and comprehensively covering the issue, as far as the bourgeois viewpoint of the author allows, on the one hand, and a wealth of statistical materials – on the other.

Hobson takes upon himself the defence of those capitalist groups in England who are interested in export of capital abroad, against attacks of opponents of expansion, mainly representatives of light industry. But he, at the same time, tries to consider the questions from the objective viewpoint of 'society', 'fatherland' and even 'humanity'. It is easy to understand what comes from such a mixture of 'styles'.

The author at every step encounters a heap of contradictions that he conscientiously and comprehensively disassembles himself in order to come, at the end, to the optimistic conclusion: all, as they say, is the best of all possible worlds. So, analysing the issue of the impact of export of capital on the productive forces of the exporting country, he establishes that a country's productive ability under the influence of export of capital is shrinking: as if they, that is, the opponents of export, would be right. But this is only at first. If we take a longer period when the income from foreign investment begins to come in, then domestic accumulation will be greater than it could be without capital export. Therefore everything is in order.

When considering the question of the nature of accumulation closer, Hobson is forced, however, to recognise that the influx of income from abroad results internally in such jobs as personal service, the growth of production of luxury objects, that is, *the growth of a parasitic rentier bourgeoisie*. This is not an entirely comforting prospect for the nation, and Hobson grasps immediately for another argument: the capitals, exported abroad, in turn, generate demand for English products and thereby stimulate the development of the domestic productive forces of the country. Increasing employment in export branches of industry. Here our author encounters a new embarrassment. That same 'longer period' that allowed him to wriggle out, to show that 'it will all come out in the wash', now turns against

[467][John Atkinson Hobson (1858–1940). Reviewed by Dashkovsky 1927c on occasion of its Russian translation. That review appeared in the same *Pzm*-issue as the concluding part of his article-series.]

him: in fact in the end abroad with the help of English capital there grows an own industry, which no longer needs English commodities. And on the other hand, even those countries importing capital to themselves who also need to import industrial products, do not need to apply necessarily to England. There are in the world also others countries exporting capital, and, ironically, these 'newcomers' grew up precisely on the tail of English capital export. Hobson himself with melancholy states this sad fact. 'In general the expansion of industry in different parts of the world leads to the fact that the replacement of British capital abroad ever more are effected through orders to non-British producers', that 'with the growth of industry all over the world the proportion of British foreign investments which take the form of exports from the United Kingdom has probably declined'.[468] But he finds comfort also here: the branches in which England particularly specialised (mining engineering, textile machinery, and so on) continue to expand.[469]

Hobson believes, that not all countries that import English capital are capable of industrialisation. He denies, for example, this ability for Canada, Australia, South America, which, supposedly, still for an indeterminately long time will remain waterer-nourishers of the metropolis. Poor consolation: none other than Hobson refutes himself on page 215[470] of his work: 'There are data that make you think that the path of development of the United States will repeat itself in various other countries, such as: in Canada, Australia, and parts of South America'. However, this was written already in 1925, when the facts became more 'stubborn'. As regards monopolies in some special branches, it is not difficult to understand that any specialisation is an *acquired* quality, and to the extent that other countries will acquire experience, English capital will lose its last monopoly. But what is to be done? Limit or prohibit the export of capital from England. Hobson, with good reason, considers this idea utopian, although he herewith proceeds from narrow technical considerations that play a secondary role in comparison with *class* interests, and finally puts into play the most powerful argument in favour of exports. Not only England exports capital abroad. There are other hunters for foreign investment. The prohibition of export of capital from England would only lead to the fact that the industrialisation of the backward countries would be implemented with the help of other capitals. On the other hand, huge accumulations locked inside the country would have lowered interest rates so much that a significant part of them would simply be eaten up. Thus, there would be left the whole negative phenomenon accompanying capital exports, without those advantages that it delivers to industrial

[468]Hobson 1914, p. 7 [no reference for the first quote].
[469][Hobson, 1914, pp. 12, 13.]
[470] [Of the Russian edition. This is p. 174 in Hobson 1925.]

countries. The interests of 'society', 'country', and so on, match, and the virtues of the latter triumph.

Exported capital can consist only of commodities or of money. What is exported from England? Hobson with figures in hand shows that from *England, in essence, nothing is exported*. On the contrary, England's balance of payments almost every year shows a surplus in favour of the latter. Consequently, the English capital, allegedly, exported abroad, represents nothing but a part of the profits, the tribute that England is paid by its debtors, part of the surplus value extracted from other countries. But if in this way it is possible to exploit the whole world, there is no need to particularly care about the prosperity of domestic industry. Hobson without any restraint is the ideologist of this process of decay. Still in Ricardo's time indeed 'was established' that for the country it is absolutely indifferent, whether it feeds 10 or 12 million inhabitants, if only the income remains unchanged. On this basis, as is known, in the sixteenth century in England sheep displaced people.

Nevertheless also the fate of people worries Hobson, and he tries in good faith to investigate the question about how export of capital affects the distribution of income between classes and in what relation export of capital stands to emigration and unemployment.

Hobson knows that an increase of 'social wealth' can go hand in hand with the growth of poverty and vice versa. That is how it is with capital export. Hobson comes to the following conclusion:

> For example, it is likely that foreign investment has vastly benefited the work-people of the United Kingdom regarded broadly over a century; but the foreign investment of the past ten or fifteen years may have injured persons who own no capital, and this would be in harmony with the fact that the real wages have remained practically stationary in the United Kingdom during recent years (according to statistics they more likely fell. *I.D.*). The rate of interest has gone up very greatly, and with it the bargaining power of the capitalists as compared with work-people (whose bargaining power in fact did not at all "strengthen" *I.D.*) has become stronger.[471]

However, Hobson also finds consolation here: firstly, he chooses the more appropriate in this case for observation, 'long period', and secondly, he finds that workers can successfully compensate for losses on wages by increasing income from their 'capitals': after all, every worker gradually 'saves' capital. In addition, emigration comes to the rescue.

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[471]Hobson 1914, p. 67.

The attempts by Hobson to prove a parallelism between capital export and emigration are the weakest place of the work, for here the figures of emigration in sparsely populated and densely populated countries are dumped in one pile. In the same spirit, data on exports of capital are mixed. Meanwhile, it is quite clear that the export of capital to Canada has entirely other consequences than the same export to India: in the first case it strengthens Canadian emigration (which can occur also not at the expense of England), in the second case – Indian emigration grows (which can be directed also to England, and in any case to its colonies). These opposite results Hobson leaves without attention, and therefore comes to false conclusions. Another mistake of the author is the exaggeration of the influence of capital export on the interest rate.

Of great interest is the attempt by Hobson to compare the relative pace of internal and external investment. In general he finds a solidarity of both markets of capital, although foreign investment has a much larger amplitude of oscillation and the discrepancy ever accelerates. The general condition affecting the distribution of capital between the domestic and foreign markets, he formulates with insufficient clarity. We must recognise that also Marxist theory in this respect requires further development. The difficulty consists in the following: if capital is attracted by a higher rate of profit abroad, then what are the reasons that still retain a solid share of new accumulation inside the country? The explanation should, in our opinion, be sought in the point that the increase of profit from foreign investments in one form or another form enters into a 'general partion' between all capitalists, leveling thereby for the latter the chances inside the country and abroad. A significant role in this should also play conditions of location, '*standort*' and so on, which are not considered at all by Hobson.

Hobson measures the amount of tribute that England collects from abroad with the help of the figure of the balance of payments. This is true statistically, but not economically. It is necessary to further take into account the exchange of equivalents. There is no doubt that a country exporting capital sells its products at relatively higher prices, than a country which is forced to export for the payment of interest.

For all this, Hobson's book is in many respects a classical work, especially in its concrete part, where the author gives a brilliant historical outline of the development of British investment, and in the chapters analysing the English balance of payments.

In the book there are scattered a great many individual apt observations. Let us draw attention to some particular law-like patterns, established by Hobson. So, for example, by analogy with Pigou's law on migration of labourers, Hobson establishes the following law:

'[T]he costs of movement from one occupation to another may be greater if a single transference is required than if the transference be made up of a number of small movements. The same tendency may apply in the case of capital'.[472] On this is based the intermediary role of some countries, which simultaneously export and import capital ('cross investment'). In general Hobson's book provides great material for the theoretical enhancement of problems.

[472]Hobson 1914, p. 30.

Chapter Six

The Export of Capital in the History of England[473] (1928)

Fedor Kapelusz

In our introductory chapter, Dashkovsky wrote:

> Analysis of the conditions of the development of the world market … is a matter of economic history, which must take the question in all its concreteness. [T]he history of the world economy arises … not at all as the result of some kind of 'self-deployment of world reason'. But we are interested here not in the history, but the *theory* of the problem.

Now, in this article by Kapelusz, the focus turns to (a part of) that history, and to politics (like war). Although our volume is on the theory of trade, we nevertheless include this more history-orientated article. It has the following sections:

1. The epoch of revolutionary wars
2. The post-[Napoleonic] war period
3. Loans and the export of commodities
4. Scheme of different periods in the history of English investments
5. Railway investments
6. Investments in foreign industry
7. State control over foreign investments
8. Investment in the colonies, and also in Turkey and Egypt
9. The transition to imperialism.

Despite the topic of capital export and the title of the last section, there is no reference in this article to Lenin's 1917 book. Kapelusz (1876–1945)[474] wrote about the increasing importance of capital export (*Kapitalienexport*) as compared to commodity export already in an 1897 article-series in *Die neue Zeit*, so arguably

[473] *The Migration Of English Capital To 1875*, by Leland Jenks 1927. [The book discussed in this article. Jenks was born in Ottawa (Kansas) in 1892, attended for instance the London School of Economics in 1920–21, received his PhD from Columbia University. He wrote for instance on Henri de Saint-Simon (in *Essays in Intellectual History*, 1929) or on economic imperialism in Cuba (in *New Tactics in Social Conflict*, 1926; *Our Cuban Colony: A Study in Sugar*, 1928).]

[474] Fyodor Davidovich Kapeljush, independent Marxist. For a biographical note see our introduction to Kapelusz 2020 [1928b].

before Cunow[475], in connection with overproduction in old capitalist countries and rising protectionism in young ones.[476] That economic shift would also explain England's change in foreign policy to backward countries. For example, it dropped its former support to Turkey (as a market for its commodities), and instead wished its industrial investments could develop in a civilised state (even if this meant behind Turkish tariffs). French 'high finance' owned Turkish debt, so by contrast French policy sought the upkeep of the financially-strained 'barbaric' regime (incidentally, colonies are a drain on the imperialist government, but they are a domestic mechanism to funnel money to high finance). Though Germany, like England, was interested in capital export, it could compete with cheaper English capital export in Turkey only by excluding it through political means, which meant keeping Turkey dependent. Kapelusz repeated his thought in 1908 in the Russian journal *Sovremennyj Mir'* ('Ekonomika i politika').

As Vienna correspondent for the at the time Marxist-run journal *Samarsky Vestnik*, Kapelusz in 1897 reviewed Maksim Kovalevsky's *Lektsii po ekonomicheskoj istorii*.[477] He worked as a Russian translator, for example Charles Letourneau's *L'évolution du commerce dans les diverses races humaines* (Petersburg, 1899).

Kapelusz often stressed the aspect of political (inter-state) rivalry, for instance in a 1925 book on the international money (credit) market.[478] In 1925 in the journal *Pechat' i revoljutsija* he reviewed a couple of Varga's writings on world economy. In 1927 offered a couple of overviews of the literature on world economy, in other words, he was up-to-date with the latest bourgeois theory. The Institute of World Economy and World Politics, in an announcement for 1929, listed studies that its collaborators were working on, among them Kapelusz's 'Technical Shifts in the World Economy after the War'.[479]

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[475] See Day and Gaido 2012, pp 178–79.

[476] The latter, seemingly paradoxical, point was also noted later by Hilferding: 'A branch of industry which is menaced by the protective tariffs of foreign countries now makes use of these tariffs for its own purposes by transferring part of its production abroad. [...T]he export of capital, which receives a powerful stimulus from the protective tariff at home in one way, is also promoted by the protective tariff of other countries, and contributes to the penetration of capital into all parts of the world and the internationalization of capital' (Hilferding 1981, p. 314). Also noted by Bukharin 1972a, p. 98 (following Sartorius von Waltershausen 1907).

[477] Nos. 42, 46, 1897. Likely a lecture Kapelusz attended, shortly before the publication of Kovalevsky's multi-volume opus *Europe's Economic Development until the Emergence of Capitalist Economy* (German translation dates from 1901).

[478] Translated for volume on Marxist writings on money (Gaido, Rodman).

[479] *Technicheskie sdvigi v mirovom chozjajstve posle vojny*. Other lectures announced were, for example, Isachar Fajngar's 'World Export of Capital', Yuri Goldstein's 'Economics and Politics of World Trade after the War', or Lev Eventov's 'Economic Foundations of American Imperialism'.

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1. The epoch of revolutionary wars

Recently in England and America a number of solid works appeared on the economy and finance of England during the Napoleonic wars and then post-[Napoleonic]war period. The authors establish a thematic analogy with the present post-[1918]war period; no doubt precisely these analogies aroused interest in the study of that time.[480] In fact: even if we take into account the cardinal differences between those times and ours, even if we leave aside the special questions on war financing, as well as on inflation and deflation as a consequence of the war, there remain analogies on questions of military debts, on foreign investments of capitals, on the interaction between the export of capital and the export of commodities.

With a consideration of the epoch of the wars with Napoleon also begins the book of Leland Jenks on the history of investment of English capital. This is the era of Rothschild and Baring, the epoch of the rule of bank money capital. Ever since William of Orange and Queen Anne the national debt of England rapidly was increasing. This growth Jenks believes not only to be 'evidence of British wealth', but also 'the prime agent in its concentration'.[481]

Let us compare this with the data of Mulhall.[482] The national [public] debt of England was (in millions of dollars):

1713	1763	1793	1816	1870	1913
$270	735	1,850	4,500	4,005	3,486

The debt of England during the wars with France made a huge leap upward. According to the same Mulhall, the national wealth of England for the eighteenth century increased only three and a half times (£490 million in 1703, and 1,740 million in 1800), while its national debt increased more than five times (£50 million in 1727 and 248 million in 1793, and by 1800 in the thick of war of course even more so). However, in the nineteenth century the national wealth of England increased nine-fold (in 1903 £15 billion) and its national debt had grown less than three times; already much less favourable was the evolution in France, whose national wealth increased in the period 1815–1913 six-fold, and national debt – nine-fold.

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[480]Let us name the following; Ackworth 1925; Cannan 1917; Silberling 1924 and 1923. Even the book about modern world finances of Friedman (1923) begins with a long review of the period of the Napoleonic wars. [The latter book was reviewed by Kapelusz in 1924.]

[481]Jenks 1927, p. 14.

[482]Mulhall 1909, p. 260 [there in pounds sterling],

So, *for the Napoleonic epoch* one can establish the well-known primacy of national debt and money capital in England. This debt, whose growth in the beginning led Swift, Pitt, Fox and Burke to horror, then in the nineteenth century leads into the delight of Macaulay, as 'the greatest prodigy' of England.[483]

The Prussian Statistical Office establishes in agriculture the existence of a connection between indebtedness and profitability. 'From our survey, – we read, – it is clear that in Prussia in general in every class of land tax, the income from land tenure grows together with indebtedness, that is the higher the debt, the more income farmers extract from their land'.[484] Obviously, the observed Prussian statistical facts are explained by the point that with the involvement of others' capital, the capitalist exploitation of land intensifies and as a result of this profitability grows. In connection with the figures of the above-mentioned Mullhall, the question arises whether it is possible to conduct in this regard a parallel with state debt. The latter, apparently, diverts capital from the national economy and in this respect is the opposite of the indebtedness of agriculture. This counterposition is true only insofar as state debt goes to unproductive military purposes; but on the other hand, domestic state debt, as well as foreign loans stimulate production, because in the final light they are transmitted to the state not in [the form of] papers, not in fictitious capital, but in commodities. With this one can explain the apology of state credit, first given by Heinrich Dietzel, and after him Lorenz Stein, arguing that state debts create new capital. It is curious how Jenks responds to this assertion; he writes that it is a superstition, but 'like most superstitions this one frequently held true'.[485]

Jenks depicts the power of the dynasty of bankers, based on this crucial importance of state debt and fund transactions. The newly created aristocracy of fundholders was 'nearly synonymous with the governing classes'.[486] They received annually £30 million interest – three times the total amount of state revenues of England before the war with France. Stock brokers are elevated into the peerage (Lord Carrington and others),[487] become the 'Pillars of the City' and rulers of the destinies of England. The omnipotence of Alexander Baring, who worked after Waterloo hand in hand with the Duke of Wellington, can be compared with the power of Morgan in our time.[488]

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[483]Macaulay 1856, p. 410.
[484]*Zeitschrift des Königlichen preussischen statischen Landesamtes*, 1907, p. 26. [Passage not found there.]
[485]Jenks 1927, p. 265.
[486]Jenks 1927, p. 26.
[487]Jenks 1927, p. 19.
[488]In this respect is characteristic the following quotation from Byron (*Don Juan*, canto XII), depicting the power of Rothschild and Baring [quoted by Jenks 1927, p. 25.]:
Who hold the balance of the world? Who reign

Bankers were intermediaries in the matter of placing capitals in internal debt of England, as well as in the money operations of the English governments abroad during the war and, finally, in the matter of loans to foreign states after the war. England led the war with Napoleon mainly through subsidies and loans to allies. Almost all expenses for both wars with France had to be transferred abroad: either by gold, or by commodities. Already Buchanan in his notes to Adam Smith points out that these loans and subsidies were transferred abroad for the most part not in gold and silver, but in English commodities.[489] War in this way stimulated the English economy and export. Mediators in this business were banks, the so-called merchant-bankers; they assembled cloths from Yorkshire, sabres and muskets from Sheffield, and horses from Ireland, and delivered them in Trieste for an Austrian campaign; they could meet pay-rolls in Flanders out of Mexican dollars coming in payment for calico delivered in Spain and so on.[490]

However, Jenks speaks about a complete discrepancy between money capital and industry in England at the end of the eighteenth and early nineteenth century, speaks about a cleavage and almost gulf between them, not giving, however, an accurate definition and analysis of this discrepancy. By the way, in a similar sense expresses another modern author Bowden.[491] A different opinion is held by another American author Edwards; he stresses that in the first quarter of the nineteenth century 'surplus capital was no longer monopolized by the merchant class, for now the manufacturing group developed by the Industrial Revolution also possessed funds seeking investment both at home and abroad'.[492] This viewpoint in general is predominant. 'Money market, – says Jenks, – and factory were at opposite ends of the pecuniary chain which was linking British society into new relations'. 'From any important connection with the industrial life of Great Britain the stock market was entirely divorced'.[493] A sharp divergence Jenks finds between capital investments in consoles and the general turnover of foreign trade in England; in 1783 holders of consoles received £9 million interest, while the whole turnover of foreign trade amounted in total to 35 million. These fund-holders, Jenks emphasises, were not factory owners, but landlords. The 'gulf' between

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O'er congress, whether royalist or liberal?
Who rouse the shirtless patriots of Spain?
(That make old Europe's journals 'squeak and gibber' all)
Who keep the World, both old and new, in pain
Or pleasure? Who make politics run glibber all?
The shade of Buonaparte's noble daring? –
Jew Rothschild, and his fellow-Christian, Baring.

[489][Buchanan in Smith 1817, volume 2, pp. 166–7. Quoted also in Kapelusz 1897, p. 463.]
[490]Jenks 1927, p. 18.
[491] Bowden 1925.
[492] Edwards 1926, p. 48.
[493]Jenks 1927, pp. 15, 14.

industrial and money capital, according to Jenks, did not begin to be bridged until the rise of railways. Jenks does not differentiate loan and trade capital, all this is covered in him by one blurred term 'business', sometimes also 'finance' or 'great commerce'. However, he makes a distinction between state loans and trade credits for industry. 'It was mainly at the market end (the periphery), through advances of London merchants and bankers [...], that money capital (in Jenks: the financial system) was of service to the productive movement'.[494]
The statement of Jenks about a 'gulf' between money and industry capital in England, a statement to which he often recurs, not however deepening his analysis, has by itself a well-known factual background. It is pointed to, in various forms, by a number of authors. Wieser writes:

> London is *now, as a hundred years ago* (emphasis ours – *F.K.*) the centre of world turnover, in which are concentrated the money operations of the whole globe ... But an industrialist from an English province or Scotland does not need to turn to London in search of capital to increase his enterprise, he will find it in his province, with his relatives and people with whom he has business ties, and if this proves insufficient, he will find it in the nearest richest provincial town in Glasgow, Manchester, Liverpool, Newcastle, Birmingham capitalists, from whom he will be much more able to get money, than by issuing on the London Stock Exchange.[495]

Jenks also points to the financing of the first stage of railway construction from the provinces, wherewith in the provinces a number of money market-centres formed, and

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[494] Jenks 1927, p. 15. [Here as elsewhere Kapelusz slightly changes the wording, we sometimes follow him, other times we revert to the original of Jenks.] To deny the fact of the prevalence of money capital in England after the Napoleonic wars and in the current post-war period, to deny it on the basis of the Marxist thesis about the primacy of production can be done only by those Marxists who, so to speak, know how to dance only at the stove [This is a Russian expression, meaning 'to act always in the same way, never changing based on newly acquired knowledge'.]. In our book *The Pound and the Dollar. Britain and the United States in Struggle for Domination on the World Money Market* (1925) [translated in Gaido, Rodman (draft)] we provided factual material on such prevalence of money capital, its interests in modern, post-war England – this the reviewer Lavrentiev (1925) declared [to be] a heresy against Marxism... Withers (1909, p. 170) speaks of the primacy of money-capital in England even in the pre-war period: '[T]here is a strong feeling among the manufacturing classes that the facilities given by the London money market to foreign borrowers are detrimental to English trade [and industry] ... This contention cannot be set aside as lightly ... [I]t must be admitted that [...] if the handicap were real and persistent, its working would tend to make England a banking, discounting and exchange-dealing nation rather than a manufacturing nation'. Either way, there is no need to dispute the cardinal role of such factors as the banking organisation of England, its bill market, its income from foreign investment of English capital, from freight and marine insurance, from financing world trade, and so on. These factors acted even before the world war. Finn-Enotaevsky [for example 1913 and 1926] disputes even the concept itself of finance capital, as domination of banks over industry, referring to the thesis of Marx about the primacy of production. [Hilferding's theory of finance capital is likewise rejected for example by Roniger 1924a, pp. 332–4.]
[495] Wieser 1919, cited in Pashukanis 1928.

Leeds for several months even surpassed in this respect London. To this one can relate the crediting of the textile industry of Lancaster.[496] A still more characteristic reference to the calculations of Neumark, is quoted by Adolf Weber: 'Still in 1911 from the total sum of £10,187 million traded on the London Stock Exchange only 779 million accounted for shares of industrial enterprises, whereas no less than 1.8 billion accounted for shares of American railways; in other words, on the London Stock Exchange a much stronger role is played by foreign securities, than by English industrials shares.[497] It is known that English deposit banks abstain from from founding and issuing activities, only in recent times special institutions have been developing for this purpose. 'In England, – says Pashukanis, – until the most recent times the connection between industry and the capital market was very weak and badly organised'.[498] These 'artisanal' methods of financing English industry are explained precisely by the monetary power of England, the wealth of the English provinces; with the entry on the world arena of German competition the matter changes, and the English empire too takes the form of finance capital, the adhesion of banks with industry. As Eugen Varga notes, even now loan capital finances the English industry not in stocks, but in fixed-rate bonds ('*vested interest debentures*' and others). Let us repeat, these tendencies obviously lie at the basis of that 'divergence between money and industrial capital in England', about which Jenks speaks. Against the backdrop of these general trends acted *different* concrete moments at the beginning and end of the nineteenth century. For later times it is stressed that the role of London, as international clearing house, allowed English banks to disregard industry, they are rich enough by money operations. But at the beginning of the nineteenth century the predominance of money capital was not expressed in the point that London banks were 'leaders of industry', as in the era of finance capital, but [in the point that they] preferred operations with government loans.

Jenks emphasises that London banks grew not by industry, but by grain trade, real estate transactions and operations with the government. Only at the very first stages Baring's firm,

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[496] Very instructive in this respect is the role that trade capital still plays in the textile industry of Lancaster. Hirsch (1925 [Kapelusz translated this book into Russian]) speaks even of 'distributors' in the newest industry, wherewith 'the classic example of this is the English cotton industry'. Here, trade plays a central role in the entire industry. It significantly unloaded the spinning mills, taking over the storage of raw materials in warehouses and bearing the speculative risk. A commission firm undertakes the sale of yarn to weaving factories, in difficult times indirectly supports the spinning mill by capital, gives yarn in colour, sells it on the exchange. The cloth is taken over by another trader, the so-called merchant; he is also called an exporter, since three quarters of all products go abroad. They give the cloth to special industrialists for whitening, colouring and other operations, or receive the cloth in the already trimmed form from other intermediaries, so-called middlemen. From merchant and middlemen the commodities are handed to wholesalers, working on the domestic or foreign market. 'There is a completely analogue organisation of the cotton industry in France; in Germany it develops in similar direction'.

[497] Weber [presumably 1922 edition, no page reference].

[498] Pashukanis 1928, p. 57.

having emigrated to England from Germany, had a connection with the manufacture of linen in Exeter; later on, it completely broke away from industry (and commodity trade). An exception Jenks regards the bank firm Jones, Lloyd and Co., which grew up on the tea trade in Manchester, and subsequently gave loans to textile factory-owners in Manchester and helped them grow. Jenks further names several banks that grew up on the linen industry (including such a large firm as Gurney), on the import trade of Swedish iron, on the financing of coal mines. However, this relation of banks with industry he considers an exception. Jenks stresses that during the Napoleonic wars and in the then post-war period capital went almost exclusively into state loans, and not into industry.[499] When in the first decade of the nineteenth century on the London Stock Exchange trade began in some shares of coal enterprises, it happened in a modest corner of that premise, in which, mainly, the funds were bought and sold of foreign governments. Compared with investments in state loans, English and foreign investments for trade and industrial purposes played a secondary, minor role.
In France at that time, we meet a similar situation. In the decree of 27 Prairial of the year X on trade exchanges, we read:

> Article 1. 'The trade exchange is open to all citizens and also for foreigners'.
> Article 25. 'Only the course of state bonds [*le cours des effets publics*] can be shouted with a loud voice. As for traded stocks, bills of exchange and credit bills, both domestic and foreign, transactions with them cannot be conducted with a loud voice'.[500]

This is a characteristic illustration of Jenks's data.

2. The post-war period

'The Napoleonic wars had given (?) England prosperity, and peace seemed likely to deprive her of their (the wars') fruits'.[501] As a result of the post-war crisis the loans of England to foreign countries increase even more. 'Policy which (beforehand) had guided the price of the funds now sought its orders from them',[502] one contemporary stated. Jenks even talks about 'foreign loan mania'. The following circumstance is important: gold- and silver-mining

[499] [This is an indication that Kapelusz in this text does not use the term 'capital export' in its strict, proper sense, of foreign *direct* investment.]
[500] Arrêté concernant les Bourses de commerce (16 June 1802).
[501] Jenks 1927, p. 25.
[502] Jenks 1927, p. 19.

which consisted in 1800–10 on average of £10 million a year, in the next decade fell to 6 million, with precious metals flowing into Russia and to the East; the amount of gold and silver coins in the trade countries of the West decreases until 1849, when mines were discovered in California; this coin in 1808 amounted to £388 million, in 1829 – 313, in 1838 – £270 million; in parallel with this there is a decrease of the price level; the price index is, according to Silberling, 130 in 1816, 91 in 1830, 84 in 1843, 79 in 1849. This fall in the price level, no doubt, created great benefits for holders of fixed-rate funds. And, indeed, the streak of investments in public loans, and then in railway construction (in significant degree with governmental guarantee) continues, approximately, in the course of this whole period, and the colossal growth of English industry, in particular metallurgy and shipbuilding (transition from railways to ships), begins only after this period, and precisely under the influence of railway construction. We touch here neither the quantity theory of money, nor the theory of Sombart about the primacy of the money side (gold production) in the history of crises; the decrease in circulation of gold can be explained by the replacement of cash payments by cheque turnover, while the fall of the level of prices – by the progress of techniques in industry; we state only the fact of the prevalence of state loans (and railway investments) in connection with the above-emphasised particular advantageousness of them in this period.

The war with Napoleon had barely ended, when France got a loan from England.[503] In particular Wellington and Pozzo di Borgo (Russian ambassador in Paris) advocated in favour of this loan. Considerations of a political nature partly played a role here: the powers of the Holy Alliance wanted to help the restoration of the Bourbons on the throne; for the same reason the indemnity imposed on France was not very high.[504] Anyway, Alexander Baring immediately was adopted for this matter. It is hard to say who really needed the loan more – France or England. The loan was very beneficial for the English investing public and bankers: the first loan of 100 million francs was released in February 1817 at a course of 53; it had to go to the maintenance of the army of occupation, wherewith the Duke of Wellington, for the sake of success of the loan, even cut this army by one-fifth; simultaneously a second loan was concluded under the same conditions for the payment of indemnity until 31 March 1817; and in July a third loan (amounting to 115 million francs) already at a course of 65, since the first two loans were quickly covered. French bankers subscribed to one third; in the

[503]'France, then in much the same manner as Germany in 1924, had to seek financial aid from her conquerors to pay the war indemnity as fixed by the Congress of Vienna' (Edwards 1926, p. 48).

[504]The indemnity was imposed only to the amount of 700 million francs, which together with the reimbursement (of emigrants and so on) should have amounted to 1,290 million; in addition, 150 million a year in payments for the maintenance of the army of occupation. Nevertheless, among Allied diplomats often was expressed the opinion that from France is demanded the impossible, that the indemnity will never be paid; Metternich agreed to be satisfied with thirty per cent.

beginning the subscription to the loan occurred almost exclusively from London. Contemporaries estimated the profits of bankers from these loans at £1.5 million.

The investing public itself was also very interested in loans, the market for the latter was very favourable. Therefore, loans took place, despite the fact that the English government was preparing for the restoration of gold convertibility. In England there developed even a kind of 'passion for French rentes', which brought more income, than English consols. And when in 1819 there were disorders in England's industrial districts, capital even left English industry for abroad, there was a general '*sauve qui peut*'.[505] The London press was indignant at the Monied Interest, which 'at the prospect of gain, is ready to forget all the claims of patriotism'; 'When England's agriculture and manufactures were at their lowest ebb, it was no time to transfer capital to enrich her most dangerous rival'. In the House of Lords, Lauderdale declares: 'The law interfered to prevent a poor artisan from leaving the country; was it to be endured that the law should be powerless with regard to the rich capitalist, and that he should be encouraged to export the money of the country, the main nerve of all our resources'?[506] But Baring was the winner. No wonder the Duke of Richelieu said that there are Six Powers in Europe, the sixth of which were the Baring Brothers (later this was paraphrased: instead of Baring they began to point to the huge role of the press, the newspaper *Times*). And Baring, as Jenks observes, was synonymous with the London market of capital.

As for France, then, thanks to English loans, its credit rose to such a height which it did not know already for decades. In the spring of 1818, the French government attempted to open in Paris a subscription to an internal loan at a course of 66.5, and the subscription was covered 15 times! Whereas in England state debt per capita was 1000 fr., in France the figure was only 50 fr.

Soon France itself already issues state loans for other countries, including for one of the winning countries – Prussia; the Prussian loan of 1822 was followed in 1824 by the Spanish loan and others. Published on the initiative of Minister of Finance of the regime of restoration [Jean-Baptiste de] Villèle, a royal order on 12 November 1823 abolished the royal decree of 7 August 1785 which prohibited the quotation in the bulletin on the Paris Stock Exchange of any interest-bearing securities, except royal, that is French domestic loans. After the Franco-Prussian War of 1870–71 the winner Germany too soon began to feel an urgent need for French loans.

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[505]Jenks 1927, p. 41. [Save yourself, who can!]
[506]Jenks 1927, p. 36.

English loans to European countries from 1818 to 1825 however were far from being limited to France alone. Alexander Baring still in the time of the post-war crisis in England itself takes active participation in the financial reconstruction of Europe: he provided loans to Prussia, Russia and Austria for the improvement of their currency. In part we have here an analogy with the present America. Another analogy: just as England laid the foundations for its economic power during the war with revolutionary France and Napoleon, wherewith it put to good use the subsidies and loans to allies, so [too] in the world war the United States made a fortune thanks to loans to the Allies, from this time its economic hegemony begins.[507] In that time – the 'mania of state loans', in our time – the huge importance of Europe's debt to America. Further: the fall of purchasing power of the European continent after the Napoleonic wars deprived England of the main market for its commodities; now the United States suffer because of a decrease in the purchasing power Europe and are also interested in the restoration, stabilisation of European capitalism. And, finally, the following: until the Napoleonic wars the main creditor of the world (by that time's standard, of course) was not England, but Holland (in 1776 in Dutch hands were £59 million English bonds [*konsolej*], or three-seventh of English national debt), as a result of these wars the primacy in this respect shifted to England; the same after the world war happened to the United States. If England in the economic sense did not win, but lost the world war, then Napoleon, holding in his hands the Netherlands, also only hurt himself and strengthened his enemy, since Dutch capital migrated to England.[508]

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[507]['The prewar power of the United States grew on the basis of its internal market [...] In this development the war has produced a sharp break. The United States exports capital and manufactured goods in ever greater volume. The growth of America's world power means that the entire system of American industry and banking – that towering capitalist skyscraper – is resting to an ever increasing measure on the foundations of world economy. But this foundation is mined, and the United States itself continues to add more mines to it day by day. By exporting commodities and capital, by building up its navy, by elbowing England aside, by buying up the key enterprises in Europe, by forcing its way into China, etc., American finance capital is digging with its own hands powder and dynamite cellars beneath its own foundation. Where will the fuse be lit? Whether it will be in Asia, Europe or Latin America – or what is most likely in various places at one and the same time – that is a second-rate question' (Trotsky 1975, p. 354).]

[508] 'Wealth without protection makes the prey more seductive. Commitments, connecting all the European powers with the Amsterdam firm Hopes, had not the slightest effect on the soldiers of Pichegru, who occupied Holland, and, one must presume, the chests, by the way half-empty, of Venice sooner attracted than frightened Bonaparte. Our money will work for our government, only insofar as it can protect it' (A. Peyerimhoff, *Les interest financiers* [*The financial interests of France*]). However, not the occupation of the Netherlands by General Pichegru, but only the subsequent Napoleonic wars finally complete the emigration of Dutch capital to England. On the day of the capture of Amsterdam by the troops of Pichegru, 20 January 1795, on the contrary, 'the Amsterdam Stock Exchange was open, all commercial operations were made as usual, and debts were repaid with normal fidelity' (Lacretelle 1806, p. xl). Under Napoleon from Holland was taken an indemnity in total of 40 million guilders. However, Edward (1926, p. 46) believes that by the time of the French occupation the financial power of Holland was already undermined; he explains this by the overloaded state of the Dutch money market.

Jenks cites interesting facts about English loans for insurgent Greece. We note here only that the lion's share of these loans went to bankers and other intermediaries. But most characteristic are the English loans to the young republics of Central and South America. During the fever with English investments in these countries, the so-called South Sea Bubble,[509] these investments for three years, 1823–25, amounted to a huge for that time sum of £17.5 million. As is known, the collapse of these investments intensified the crisis of 1825. In these investments, insofar as they were also accompanied by the export of commodities, England sought a way out in the face of the impoverishment of the European continent after the war. Let us note, by the way, that the United States at the present time in part pursues a similar tendency. But besides this, the following points also played a role here: Canning sought to find in South America an economic and political compensation against the United States.[510] In economic relations South America was to come in recompense for the loss in North America, and politically Canning hoped to lean on South America against the Monroe doctrine then proclaimed in the north; as is known, the move of Monroe was caused by the fact that the Holy Alliance was going to act against those colonies who had fled Spain in South America – then Canning hastened to recognise the newly formed republics.

3. Loans and the export of commodities

In our time loans are closely connected with the export of commodities. Let us examine how it stood in this respect in the epoch under consideration. The placement by Baring of the French loan abroad was actually a mobilisation of 'trade credits' from around the world – for France. So, for example, Manchester men shipping cotton goods to New York, received in payment bills on France for tobacco shipments from Virginia, and discounted them with Barings to speculate in rentes. France received its loans in the form of increased commodity import. (We will see below that the same thing happened with the investment of English capital in the railway construction of France). 'Not a sou – says Jenks – entered France in the form of specie'.[511] In 1817 France imported commodities for 135 million francs more than it exported. However, on the other hand, Jenks stresses that the figures of the English balance (of payments?) for 1817 show not any change; from this he concludes that, 'the capital

[509]By the way, the Lord [Comptroller of the Household Robert] Grosvenor himself participated in it. Jenks 1927, p. 55.
[510][George Canning, British statesman.]
[511]Jenks 1927, p. 37.

invested corresponded closely to the indemnity payments and army contracts (for the occupation) which were to be fulfilled'. This, however, does not mean that the English loan did not cause *growth* in the export of English commodities. Jenks points to the following: in the 1820s, despite significant investments of English capital in state loans of Spain, Naples, France, Prussia and Russia, the export of English of commodities to European ports had been steadily declining. Jenks suggests that the English commodities from India and West India were sent directly to European ports, bypassing England. In that case, consequently, there was nevertheless an increase in commodity export, although not from England itself, but from its colonies, in the final light these commodities could be paid for by European buyers precisely on account of English loans. This latter was possible also in indirect form: English loans freed up for productive purposes (including for the purchase of colonial raw materials) the local European capital, which otherwise would have been involved by local governments for purposes of armament, currency reform and so forth. Finally, two-thirds of the ill-fated South American investment were given in [the form of] commodities.

Of course, in general, the export of capital must somehow lead to export of commodities; if England has lent to some country its pounds, then this country can buy commodities for these pounds not only in England, but in another country, but in the end the latter (or another country, as a result of a number of operations) has in these pounds a demand for English commodities, if we ignore the role of the pound sterling as international currency.[512] Similarly expressed the American author Culbertson:

> In the final analysis "lending" money, "exporting" capital, and "investing" funds set in motion the same economic forces. They stimulate production either in the lending *or some other* country (emphasis ours – *F.K.*), and the debtor country receives the capital in the form of war materials, steel rails, machinery, etc.[513]

Another American author, the already cited by us Edward, also express himself in this sense: 'Transfer of capital between countries can be brought about only by the export of goods and

[512]In bourgeois science also the following argument is given in favour of the point that export of capital leads to the export of commodities: in a country that has received a loan, commodity prices will rise (the quantity theory of money!), as a result import will increase of foreign commodities to there; on the other hand, in the country that gave the loan the amount of money decreases, as a result of this, commodity prices will decrease, and this will contribute to the export of commodities from this country. Such a theory is developed, for example, by Angell 1926.

[513]Culbertson 1925, p. 346.

services'.[514] Of course, here is not taken into account the direct export of capital in the form of gold.[515]

Nevertheless, on the issue about the interaction between the export of capital and the export of commodities Jenks comes soon to a negative conclusion.

> Between 1815 and 1830 – he says – England invested at least fifty million pounds in the securities of the most stable European governments, more than twenty million in one form or another in Latin America, and five or six million found their way to the United States. The movement provided employment for British industry, but both the political and economic consequences of these loans were not so momentous as participants in the movement expected. [...] It is difficult to see how these movements worked materially to the benefit of the British economy as a whole. Some of the investments clearly stimulated a demand upon industry for exportable goods. But investments at home might have stimulated an equivalent demand. The fact that a loan will be supplied in merchandise exports is no argument in its favor.[516]

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[514]Edwards 1926, p. 269.

[515]In the complex binding of capitalism the export of capital entails not only export of commodities, but also its direct opposite, the import of commodities. So it was in the epoch of early capitalism, when the East India and West India companies predominantly imported colonial products into the metropolis, the same phenomenon takes place mutatis mutandis also in our time of decadent, decaying capitalism. The export of capital from the United States, namely to non-European countries, is currently taking place mainly for the purpose of providing one's own industry with raw materials (rubber and so on), as well as to ensure the own consumption (coffee and so on). These investments acquire a special character; in contrast, for example, from railway investment of England in the 1840s and 50s, when English capitalists, having built abroad the railway, did not hold it in their hands, but sold it to local hands, now investing capital abroad with the purpose to ensure the supply of raw materials and colonial products is associated with more or less monopoly domination of the colonial market, exported capital seeks to establish own enterprise. In his report at the Fifteen Party Congress [1927] Bukharin, speaking about issues of international economy and the crisis of the capitalist system, brought on this account very eloquent data. In 1925 on the total commodity market England received £100 million in profits, and on the export of capital and on other banking operations – £420 million. In 1926 under the 'huge strike spasm', dividends for 1,500 joint-stock companies, according to the calculations of the *Economist*, exceeded dividends over the previous year (11.8% against 10.5).

'What explains – says Bukharin – the phenomenon when the level of income is not determined by the state of industry? It is explained by the fact that the main profits of English capital are obtained not from English industry, but from raw colonial products: rubber, tea, oil, and so on. One of the largest English banker [Joshua] Stamp in conversation with the German economist Julius Hirsch about the unprofitableness of English industry quite emphatically formulated this position. He said: "We earn more from two-third of the raw material monopolies, than from the entire English industry" [source not given]. Thus – summarises. Bukharin – there is a transformation of England into a rentier-banking type of parasite and so on. [Bukharin 1928, p. 566.] [Kapelusz translated Hirsch's book *Der moderne Handel*.]

Let us emphasise that here export of English capital is carried out too in the last instance not in the form of export of English commodities. Stamp and Bukharin very categorically counterpose the present export of English capital [with] the decline of English industry. Insofar as, however, theoretically the export of capital is possible in the final light only in the form of export of commodities, one has to point to the fact that in the imperialist epoch, roughly already from the 1870s, in the balance of movement of English capital occurs a characteristic fracture; England pays the surplus of its commodity import over commodity export increasingly by the income from its old foreign investments. (About this more in the last section).

[516]Jenks 1927, pp. 64, 60.

Jenks touches also another important theoretical question: whether the main stages of foreign investments of domestic capital occur at the stage of recovery or depression? 'Scarcely had the post-war (post-Napoleonic) slump (of European markets) spent its initial force, when in 1817 the firm of Baring Brothers was lending gold to the (Second) Bank of the United States and had plunged into the intricacies of the financial reconstruction of Europe'.[517]

Here it is as if the investment of capital in foreign state loans receives a push from the depression of foreign trade [of commodities]. Investments of English capital in South America likewise received a push from the post-war impoverishment of purchasing power of the European continent. After the bankruptcy of the South American republics and the crash of English investments in South America, England passes to investments in North America. In both cases, in South American, as well as North American investments of English capital, they occur in periods of depression and stagnation in England itself.

> However – we read in Jenks – the migration of capital in the early thirties did not mechanically relieve the capital market and establish equilibrium [between the differences of opportunity at home and abroad]. If English business was depressed when the movement of capital to the United States first attracted much attention, then that movement attained its maximum volume upon the wave of business elation which reached its peak in 1836. The bulk of British investments in the United States were made precisely when the largest volume of capital was being absorbed at home.[518]

The export of capital partly comes into direct conflict with the export of commodities. English loans to European governments, freeing native capital, contributed to the development of industry (primarily textile) in France, Holland, Prussia and Russia. Twenty years after Waterloo, England sends to the continent no longer cloth, but yarn. Thus, she created a competition for herself on the continent. This happened, despite the ban on the export of textile- and other machines from England. In general, theoretically the export of machines could compensate (almost with a surplus) the decreased export of manufactured commodities; in our time this moment takes substantial importance (for example, in the

[517]Jenks 1927, p. 31.
[518]Jenks 1927, p. 82.

[1925] report of the Balfour Committee [on Industry and Trade] surveying the postwar overseas markets of English industry). When the embargo on the export of English machines was removed, their export was still insignificant, in factories on the continent were interested not so much the English capitalists, as the English technicians and masters who emigrated there.

English investments in the Europe of that time had still a further result. When due to the lean years of 1828, 1829 and 1830 England was forced to import a significant amount of grain from Poland, Prussia and Hungary, it financed this import to a large extent by old funds [bonds] in its hands of these states. If these latter have not yet developed their own industry, then they did not make yet a big demand for English industrial commodities, as a result of which grain had more to be paid with gold. The possession of the funds of these countries – Jenks stresses – allowed England to pay the import of grain without damage to the English monetary system. Thanks to this circumstance in late 1828 Austrian funds were thus redeemed and disappeared from England, followed by Russian, French and Prussian funds. Precisely the same situation in the beginning of the crisis of 1847 was facilitated by the fact that France and the United States bought part of their funds in English hands, and thus reduced the outflow of gold from England.

4. Scheme of different periods in the history of English investments

Jenks does not dwell on the problem of the foreign market as such. But almost every crisis in the history of the English economy receives from him its own, so to speak, special, qualitative painting, marks the turning point to a new era.[519] The latter in him is as it were a psychological reaction against the preceding period. Economically he in essence contrasts only the investment in state loans with investments in industry, wherewith investments in railway construction turn out to be in the middle turn.

The scheme of Jenks is as follows. After the Napoleonic wars and the collapse of the economy on the continent, the English turn to South America. The crisis, which happened after the

[519] As is known, in bourgeois economic literature there was a dispute over the issue on whether a general theory of crises is at all possible and whether one should not explain each crisis as a unique phenomenon, independently from other crises. Speaking about the scheme in Jenks we mean the bias in this, second side. It too is a kind of schematisation, although in the direction of explaining each crisis as a special 'qualitative' evolutionary lane. However, Jenks nowhere dwells on the theoretical question of the cyclical nature of capitalist crises, and the concrete material he provides does not contradict the general Marxist theory of crises, [and so] can be put into its framework.

crash of South American investments, is described in Jenks in the sense that England 'loses taste' for state loans[520] and passes over to 'industrial loans', beginning therewith a new period in the history of investments, namely investments in the United States. The Anglo-American economic crisis of 1837 was commemorated, according to Jenks, thereby that 'for once in a way Great Britain was turned from her perennial search for foreign markets to find her best customers at home'[521] (as we see, the exposition is very schematic) and began to put its capitals in own railway construction. After the crisis of 1847 again a new streak sets in: English railway investments are sent abroad, take an international character. It continues in this way until the crisis of 1857, at the ending of which again a new chapter opens: investments of English capital in India. Here we have some hiatus in the scheme, and then in England again after the crisis of 1873, in connection with the financial crash in Turkey, a 'loan mania' sets in and starts a new era, imperialism (Disraeli's purchase of shares of the Suez Canal).

In general terms this scheme corresponds to reality, but it does not, of course, exhaust the history of the English economy; moreover, the very relation between money and industrial capital is not fully enough disclosed in it: the monetary crisis of 1839, the industrial character of the crisis of 1847, the monetary crisis of 1864 and the credit crisis of 1866 – all this is very poorly illuminated by Jenks.

So, English investment in the United States in the thirties of the past century were 'a reaction against the foreign loan mania'. However, Jenks emphasises that 'with these industrial developments (in the United States) British capital had little directly to do'.[522] British capital indirectly financed American industry: by investing in transportation (construction of canals and railways), promoting westward expansion. Until 1835 $90 million were invested in transport routes of the United States, more than half of them in the form of public loans; most of these capitals were provided by England. 'It is perhaps not surprising that merchant-bankers whose principal business was to export British manufactures to the United States should not display zeal to develop in that country industries which would be competitive'.[523] If we understand this in such a way that loan and industrial capital engaged in a united front

[520]Here there is some contradiction. On the one hand, the South American investments are characterised as investments in government loans, on the other hand it is emphasised that they were supposed to be more economic penetrating and so on (and indeed two-thirds of them were spent in commodities). Kingpins of the fund market Baring and Rothschild did not participate in these loans at all, but trade companies took part in them. It is possible that Baring and Rothschild evaded participation in South American loans, having seen their insubstantial character.

[521]Jenks 1927, p. 99.

[522]Jenks 1927, p. 77.

[523]Jenks 1927, p. 77.

against the possibility of foreign competition, then between them there was neither 'gulf' nor 'cleavage'. Anyway, English trade credits, so-called credit bridge served as a great help and incentive for American trade; the United States paid bills on London for French wine, for Brazilian coffee, and in the cotton trade American firms were entirely dependent on Baring's loans. In the 1820s and 1830s forty-three per cent of American imports came from the United Kingdom; during the period from 1830 to 1836, Anglo-American trade doubled, in 1836 English exports to the United States exceeded imports from the same country by more than twenty million dollars. So, if it is impossible to establish a clear causal connection, there is no doubt that the export of English capital was somehow connected with the export of English commodities to America. Let us also emphasise the following. Jenks points to the fact that in that time on the London Stock Exchange shares of American industrial enterprises were not quoted; but for that time this is not revealing. Anyway, besides investments in loans of individual states and other public loans of America, a huge role played also short-term trade credits of London. In 1835 the size of English investment in the United States almost coincided with the figure of the latter's entire external debt – $66 million; in the next three years, investments increased to $108 million; Jenks considers the crisis of 1837 in England the result of overstretching of loans and investments in America, the result of 'foreign loans mania'. Let us note that the streak of bankruptcy of individual states, the so-called repudiation, relates only to 1840–43, but still earlier these state loans gave a crack to the swollen apparatus of speculative trade credits.

5. Railway investments

Following this the era of railway construction begins in England. In the early 40s, the annual increase in the English capital, seeking application – in the evaluation of Jenks – was £60 million; in 1843 in the City there was £20–25 million free capital. The price of a ton of iron fell from £5 to 2.1, textile factories closed. Amidst the depression began to grow railway construction. By 1849 in it was invested in England £230 million, in 1845 half a million workers took part in railway construction. This 'railway revolution' began not in the centre, but in the provinces. Subsequently Disraeli in his political novel *Endymion* noted that the leaders of the stock exchange and money-capital stood aloof from this movement, watching it with mixed feelings of curiosity and alarm: 'Lombard Street, which was never more wanted, was inactive [...] All seemed to come from the provinces, and from unknown people

in the provinces'.[524] Indeed, Rothschild, Baring, Ricardo, Lord Overstone, the leading bankers, specialising in stock transactions, initially refrained from the finance of railway construction. But the middle bourgeoisie steps on the scene as an active and initiating mass of shareholders; it was served by its provincial banks. In the beginning of this upsurge there formed even a number of money market-centres in the provinces. Leeds for a few months even surpassed London! In the financial world this meant a whole revolution. The almighty Rothschild and Baring in the beginning were not willing to transfer from state loans to finance of railway companies, but soon they change their policy and, as Jenks puts it, 'the gulf between industry and the finance was spanned'.[525] However, together with this there was a 'democratisation of the money market': new, wider layers of the population composed now the mass of the investing public, this already was not the former aristocracy of holders of consoles and foreign funds; 'in every street of every town persons were to be found who were holders of Railway Shares'.[526]

One must assume that in the original abstinence of the kings of the fund market from the railway investment, the following factor played a role. The Rothschilds and Barings used to work not only in the field of state loans, but also with the help of the state, state intervention, [with the] political factor. When it turned out that in railway construction, especially in its second phase, in pursuit of railway concessions in other countries the role of the political factor is very significant, Rothschild and money capital, which used to work almost exclusively on the fund market, headlong threw itself into this new business.

In this second phase English capital and English initiative are primarily the pioneers of railway construction in Belgium and France. Unlike England, France still did not have a sufficiently rich and welded industrial bourgeoisie to start this business on their own. French capitalists more preferred reliable, solid interest rents than high, but risky founders' profits. However, the Paris Rothschild from the very beginning was more penetrating, than the London one and together with the brothers Pereire built the first French railway line from Paris to Saint-Germain; but this little line would not have made a spring, would not have produced turnover without the help of English capitals. Initially Guizot, Thiers, Louis Philippe and both chambers were sceptical of railway construction, but then the fever of this construction began also in France. Herewith this construction of railways in France was linked with the active direct or indirect support from the state, not to mention the government guaranteed interest [rate].

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[524]Quoted in Jenks 1927, p. 130.
[525]Jenks 1927, p. 131.
[526]Thomas Tooke, quoted by Jenks 1927, p. 132.

Rothschild was closely associated with the Orleans, the relatives of Sir Robert Peel were directors of the French railways, the Duke of Orleans was a shareholder of Lafitte. But the hero of the railway epic on an international scale was Napoleon III: in England he was welcomed as a supporter of technological progress, as a matador of large capital and railway concessions (the revolution of 1848 at one time seemed to threaten railway concessions).[527] These concessions brought to the English in France an income of 7-9%, whereas in England itself by this time it was only 3%; at the first time, however, railway construction also in England yielded up to 10%. Not only in France, but also in other countries, railways too were 'political dynamite'. Cavour believed that railway construction will be an impetus to the national unification of Italy, he, too, was a bard and a knight of the railway era.[528] Austrian government circles for their part expected from the railways a 'levelling' of its variegated constituent parts. The Savoy–Sardinia railway was a decisive factor in the Austro-Sardinian war of 1859, in which Napoleon III played such an important role. As award for Austria's neutrality in the Crimean War under the aegis of the Allies a railway was built from Trieste to Venice and Milan and from there to the Sardinian border; however, as Cavour correctly foresaw, these railways proved to be useful not for the Austrian domination, but for the cause of national liberation of Italy. Finally, we also mention that Lord Palmerston was an investor in Swiss railway companies; England was the force behind the penetration of the first tunnel through the Alps, which was supposed to link English trade by overland travel with Italy, bypassing the control of France and Austria. Thus, in short, railway investments abroad one way or another approached state loans. This circumstance brought the Rothschilds and Barings to it.

On the other hand, as is known, railway construction gave a significant impetus to the development of English metallurgy, coal industry, machine-building and metal industries (approximately at the same time, the transition from wooden to iron vessels gave a powerful push to the development of the shipbuilding industry in England). Let us see how the foreign railway investments of England were reflected on its commodity exports. In 1843, the national debt England (we give it for comparison) was £773 million, English loans to foreign governments – £121 million, and investments of English capital in 612 private societies, English and foreign, amounted to £224 million. This was in the beginning of the era of railway construction. We already mentioned that by 1849 in England in railway construction

[527]Of course, this role of Napoleon III is based on the fact of the economic development of France. As Hobson emphasises, the number of depositors in French saving banks increased over the period 1852–69 from 742,889 to 2,130,768 people [Hobson 1914, p. 129].

[528][Camillo Benso, Count Cavour, Italian statesman.]

was invested £230 million. On the size of English investment in the French railways can be to judge by the fact that in 1840–47 the import of France exceeded it exports by 790 million francs, while in 1828–39, on the contrary, on average, there was an excess of exports of 25 million. In other words, France received in the 1840s an annual plus of £4 million, these were English investments, wherewith they, like previous loans for the payment of the post-Napoleonic indemnity, went to France in the form of commodities. The influx of English capital to France continues also subsequently: at the foundation of Credit Mobilier one-third of its shares were in English hands and still in 1864 Baring participates in them for two-fifth. Over time national capitals develop: 'Other countries are paying for our skill in finance and our enterprise'.[529] Obviously, with this Jenks wants to justify the founding profit of Englishmen. Building railways abroad, the English usually did not exploit them, but sold them to local capitalists, except when the builders themselves emigrated forever from England.[530] Only since the late 1850s it becomes customary that English-built railways abroad are managed from England; this occurred in backward countries: Russia, Scandinavia, South America, Canada, India. In general, the English invested their capital in the railways of Belgium, France, United States, Holland, in the Rhineland, in Piedmont, Switzerland, Austria, Spain, Russia (after the Crimean campaign), Turkey and so on. Undoubtedly, these investments contributed to the export of railway material (rails and so on) from England.[531] For the years 1850–53 export of iron and steel from England doubled, and in the early 1870s it was seven times higher in value than that in 1850; in 1856–65 export of railway iron averaged twenty-five million pounds per year, in 1865–75 this item exceeded £83 million. The export of machinery also increased: from 1.7 million each year (1864–70) to eight and a half million pounds (1871–75). In general, commodity exports of England for 1848–77 constituted more than eight hundred million pounds. In the face of these figures is incomprehensible the caution of Jenks, who claims that it is impossible to establish a very close connection between English investments in foreign railway construction and the export of English commodities. As we have seen, he also for the previous epochs, for other

[529]Jenks 1927, . 149.

[530]Edwards in the above-mentioned work emphasises for our time, on the contrary, that England makes its 'overseas investment not so much in the form of loans as of proprietary holdings; these are not public but private in nature, and are evidenced not by bonds but by stocks which possess voting power and a right to control the management' (Edwards 1926, p. 29).

[531] ['Thus England, the first country in which advanced capitalist production became established, was only able to promote its exports of means of production so vigorously by supplying them not only as commodities but as capital; that is to say, not by selling means of production abroad but by sending them abroad as capital investments. Thus, for example, when England made a railway loan to South America it was used to buy machines, locomotives, etc., from England' (Hilferding 1981, p. 279). Again, however, this is not yet exclusively about 'capital export' in the proper sense, of foreign direct investment.]

investments, adheres to this sceptical opinion, but it is not justified by the facts. Jenks emphasises that over time European countries developed their own metallurgy and tried to get along with their own iron,[532] that generally speaking 'the export of producer's goods of all kinds from Great Britain tended to be in excess of the net export of surplus capital; while the export of railway iron was a great deal less than the usual amount of the capital surplus'.[533] This last is not entirely clear. From the above figures, on the contrary, we see that export of iron increased in absolute figures in the 1860s even more than in the 1850s. Later the author contradicts himself, stating that only 'the superabundant energy of the metal industries made the remunerative export of surplus capital possible'.[534] Undoubtedly, railway construction led to the flourishing of English metallurgy; as for in particular the English railway construction abroad, then the export of capital and the export of commodities were especially closely connected during this period and it is hard to say what is the 'cause', what is the 'effect', which preceded the other. The thesis that 'the superabundant energy of the metal industries' made possible the profitable export of surplus capital, can be understood in the sense that the revenue from the export of iron and so on (insofar as it exceeds imports) was left abroad. In that case capital is exported during a boom, and not a depression, and the push comes from the export of commodities. Let us repeat, the export of capital boils down in the last analysis generally to the export of commodities.

Already in this period the alliance of heavy industry and bank capital, which subsequently is the sign of the epoch of imperialism, is outlined.[535]

6. Investments in foreign industry

[532]Over time the English already cooperated with other nations in railway construction. Here is a striking example: two English capitalists secured a concession for the construction of a railway from Poti to Tiflis, a society was formed by them in France, the shares they sold in Frankfurt and Amsterdam, the rails were ordered in Belgium, the locomotives and wagons – in England; conversely, the Anglo-Austrian Bank, building a railway in Hungary, ordered rails in England, and locomotives in Bavaria and so on (Jenks 1927, pp. 177–78).

[533]Jenks 1927, p. 175.

[534]Jenks 1927, p. 334.

[535]Of course, other factors played an important role in the contemporary evolution: Peel's Banking Act (1844), the abolition of grain duties [Corn Laws] and the transition to free trade. In the plane of interaction of money and industrial capital, one should note that after the banking reform the centre of gravity passes from the Rothschilds and Barings, from stock transactions and issuance to the deposits, cheque turnover and promissory notes brokers (bill brokers). With regard to the transition to free trade, in the England of that time, by the way, there was a discussion on the following question: will the reform reduce the necessity of export of English capital for the financing of the export of English commodities? The affirmative respondents to this question argued in the sense that insofar as foreign countries can now freely import their commodities to England, they will pay English commodity exports to them and will not need to do so with the help of English capital.

'Great Britain – says Jenks – stood in much the same relation to most of the regions of Europe around 1850 that Europe and the United States bore to the Orient and South America a half century later'.[536] This relates partly to investment of English capital in Europe, partly to the direct foundation of English industrial enterprises on the continent. As early as the beginning of the nineteenth century, despite the existing prohibition of the export of machinery from England, English businessmen, and even more English technicians and masters create in France fabricated lace and textile industry, wherewith machines partly are smuggled, partially imitated. There occurs a new 'English conquest of Normandy'.[537] The English build in France also machine-shops; in 1824 in France there are already three large English mechanical plants. The English are also pioneers at Creusot; it was the merit of one 18-year-old English technician, Charles Manby, extremely energetic and talented. A similar comprehensive pioneering activity the Englishman William Cockerill develops in Belgium; he acts both as a technician and as an entrepreneur in the field of linen and machine industry. In Prussia, English machines impregnated the old linen production.

In Russia, English directors and technicians founded textiles factories; these factories depend largely on English trade credits. English importers of machinery (after the removal of the embargo), yarn, subsequently also cotton, financed Russian textile factories. A great role was played by Ludwig Knoop, an Anglicised German; it is reported about him that his mediation contributed to the founding in Russia of 122 spinning-mills. He supported the Kraenholm factory in Narva, equipped by him in 1860 with the most up-to-date machinery; in 1849 this factory was considered the world's largest spinning-mill, consisting of a single housing. The activity of Knoop was mainly based on the attraction into Russia of English capital, machines, technicians and workers, and finally – commercial loans. In the thirties and forties Wilson, Hubbard, Thornton, Wright, and others settled in St Petersburg; one factory founded with a capital of a million silver rubles paid over 1836–60 270% of the dividend (this was below the average dividend) and, in addition, expanded its plant sixteen times; however, these factories did not appeal to the English investing public, 'there was no object in publishing knowledge (at home) of possibly generous profits to a community full of potential rivals'.[538] Further, in 1843 the Englishmen Evans founded in Warsaw one of the largest in Europe factories of agricultural machines and implements. Finally, John Hughes was the 'pioneer of metallurgy' of the Donets basin.

[536]Jenks 1927, pp. 187–88.
[537]Jenks 1927, p. 180.
[538]Jenks 1927, p. 183.

Traces of the dominance of English capital and enterprise in the field of the gas plants on the continent remained to the present time. In 1820 the above-mentioned Charles Manby[539] built in Paris a gas-works, for lighting urban streets. About 1850 there were English gas companies supplying Amsterdam, Rotterdam, Ghent, Cologne, Karlsruhe, Rome, Tours, Rennes, Christiania, Constantinople. In 1866 the 'Imperial Continental Gas Association' (an English concern) had on the European continent fourteen establishments, including gas-works in Berlin, Frankfurt, Hanover, and elsewhere. The 'Union Gas Company', with headquarters in Paris and English management, supplied gas to a whole row of French cities. As for the mineral industry of the continent, English capital was here not the dominating factor, with the exception of Spain. In the beginning (forties and fifties) English capitalists had in their hands mines in Belgium, Sweden, Italy (copper), Spain and the Lower Rhine. These enterprises passed soon to local capitals. Most of these English societies hoped on large and immediate profits, but as shares were sprayed between many not very wealthy participants, the expansion of enterprises bumped into difficulties. Only the mines 'Hibernia' and 'Shamrock' near Düsseldorf remained relatively long in English hands.

In the 1860s the English industrial enterprises on the continent are already only sporadic in nature. But then an extremely important role belongs to the mechanism of trade credits of London (so called London bills of exchange) and the English bank organisation. Already in 1846 in every Mediterranean port there is an English private banking firm; the total number of them in all ports, beginning from Gibraltar and ending with Jerusalem was forty; English bankers there were also in the Baltic. Later their number ever increases. In Hamburg, Danzig, New York, Constantinople numerous commission houses operated upon short-term English 'open credits', paying for them one-fourth of one per cent, with one and one-half as a maximum. These credits were given in the first instance for commodity trade, but also for speculative promoting banks, building projects, municipal works and so on. In German principalities emerged a bunch of small banks of issue only on the basis of capitals procured indirectly from London. In the United States the railway construction of the fifties (connection of the Atlantic seaboard with the Mississippi) largely developed on the basis of trade credits of London; 'These credit accommodations – says Jenks – played even a greater role than direct investments'.[540] This chain of 'pseudo-mercantile' credit ranging from New

[539]Manby at the age of sixteen designed his steamship and sailing his own vessel had carried a cargo direct from London to Paris. After the construction of the Paris gas-works, he became manager of the iron works at Charenton, built iron steamboats, then modernised the rolling-mills at Creusot, at the age of twenty-five he returned to England.

[540]Jenks 1927, p. 190. Tugan-Baranovsky concretises the same moment on the other side: 'Huge capitals – he writes – arrived in America from Europe, firstly in the fund market and from there they were sent via various channels to industry and trade' (Tugan-Baranovsky 1913, p. 107).

York to Danzig was an element of weakness when in 1857 crisis broke out in the money market. 'The volume of capital activity suggested by the figures – says Jenks – was not necessarily a net export of capital';[541] this statement is not quite clear; in essence Jenks understands by it that many London firms wielded absolutely unsecured liabilities (facts in this sense are also given by Tugan-Baranovsky); he stresses that demand for London bills, for papers in pounds sterling existed in addition to the demand for payment for English commodities, that these bills 'became to a degree international currency'.[542]

7. State control over foreign investments

Moving to the next stages in the history of English capital investment – the stages already approaching the epoch of imperialism, we shall dwell preliminary on one characteristic moment: on the question about the intervening state in favour of its subjects-holders of foreign loans. In the post-Napoleonic period, the English government did not know the present imperialist tactics of interference of the state against the faulty debtor-states. Canning categorically refused to put the recognition of the South American republics by England in dependence on payment of their debts to English creditors. Castlereagh[543] was also an adversary of government intervention against defective debtor-states. Aberdeen was much more worried that Isabella of Spain had married a man reputed to be impotent, with the wife of a French prince as next heir of the Spanish throne; but he remained completely cool-headed towards the fact that Isabella refused to pay interest on her debt.[544] In 1840 Lord Palmerston signed the four-power pact against Mehemet Ali, although the London City protested against this, seeing in this a violation of its money interests. The English government did not react when, across the United States swept a wave of state bankruptcies, the so-called repudiation. In 1841–42 nine states turned out to be actual bankrupt, and a year earlier, in 1840, the US Senate said that the Federation is not liable for the debts of individual states; in New York will arise 'Anti-Rent movement', in Rhode Island there was the Dorr rebellion, in Pennsylvania, Maryland, and other states, power fell into the hands of the debtors; the governor of Mississippi, the richest state at the time, laid down his veto against a loan, talked about the blood of Judas and Shylock in the veins of Rothschild, that

[541]Jenks 1927, p. 191.
[542]Jenks 1927, p. 191.
[543][Robert Stewart, Lord Castlereagh.]
[544]Jenks 1927, p. 123. [George Hamilton-Gordon, Prime Minister from 1852 until 1855.]

American children threatened to become his serfs, and so on.[545] These facts are not useless to recall in our time when the United States are advocates of merchant's virtue, resent the Soviet Union's annulment of tsarist debts, do not want to hear about annulment of Allied debts, make loans to Central America so that under the pretext of a faulty interest payment it sends its cruisers and take over the country (San Domingo, Nicaragua, and others). Let us repeat, at that time the English government did not react to the American bankruptcy. Only much later, and in relation to a much less powerful debtor, Venezuela, the first maritime demonstration of creditor power occurred. However, already under Palmerston it almost becomes custom to defend English subjects abroad by sending cruisers. In 1850, Palmerston sent an English squadron to Piraeus, seized all Greek ships; this measure was to force Greece to pay compensation for the pillage by pogromists in Athens of the property of a Jewish merchant, an English subject (the so-called Don Pacifico affair); then Russia and France protested against the actions of Palmerston, and France even recalled its ambassador from London. However, here it was not about protection of English creditors; it was rather the practice of that doctrine, which Palmerston[546] subsequently used in his famous speech – some see in it already the beginning of imperialism, – in this speech he broadcast that every English citizen abroad can say: *Civis Romanus sum*, can feel the support of his powerful homeland.[547] But even earlier, in 1848, Palmerston made a note in which already there was talk specifically about protection of English creditors. This was a turning point in English government policy on this issue. Palmerston stated in this note that the English government considers foreign loans undesirable (an echo of the American state bankruptcies!) and that the losses of imprudent creditors should serve as warning to others; but the note announced already a new policy: If the loss become so great 'that it would be too high a price to the nation to pay for such a warning as to the future, and in such a state of things it might become the duty of the British government to make these matters the subject of diplomatic negotiations'.[548]

This can be supplemented by an analogy from French history: in the French Royal Order of 12 September 1823, it is also emphasised, that the permission to quote government securities of foreign states in the bulletin of the Parisian Exchange 'requires on the part of the (French) government neither the approbation of the above loans, nor obligations to defend those of our subjects who voluntarily placed their capital in them'.

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[545]Jenks 1927, pp. 100, 368. [This passage is also given in Kapelusz 2020.]
[546][The original text mistakenly read here Disraeli.]
[547]Jenks 1927, p. 287.
[548]Jenks 1927, p. 125.

It is remarkable, that in earlier times, in the post-Napoleonic period, when state loans and the interests of money capital undisputedly prevailed, the English government systematically refused to act on the defence of creditors against faulty debtors, whereas approximately in the middle of the past century, when the country just as undoubtedly moved to the side of industrial capital, the government sets out to change its policy and promises active protection to holders of foreign funds. Insofar as there is a causal relation between both, one can express the hypothesis that here already the approach of the era of imperialism is shown. However, in Jenks we find an indication to the following striking fact: at the height of the Crimean campaign in London a Russian loan was concluded![549] This is almost a truly Herculean pillar of government non-interference, although at this time laissez-faire corresponds to the interests of the stock exchange and the capital market.

As we approach the epoch of imperialism, we see that the government gradually concentrates in its hand the control over foreign loans. In this respect we find particularly characteristic material in France. By the decree of 6 February 1860, the French Minister of finance was granted the right to prohibit the purchase and sale of any foreign securities on the French stock exchange. After the Franco-Prussian War French rentes were not quoted in Berlin, and German papers were not admitted to quotation in Paris. Saint-Maurice cites a long list of foreign securities quoted on the Paris Stock Exchange in 1911; these were papers of forty-six states and provinces, including even such states as Siam, but German papers were missing. Saint-Maurice calls this France's revanchism after 1871. 'Bismarck did not think that the day would come when the winner will need the defeated, and the time will come when Germany's economic prosperity will depend on the country which German forces tried to ruin for good'.[550] However, even on the eve of the world war, despite all the 'political nuisance' of such transactions, [Prime Minister Maurice] Rouvier supplies German banks with French capital (Caillaux also stood on this platform), which in part represents an analogy with the Russian loan in London during the Crimean campaign mentioned by Jenks. By contrast, Rothschild as a result of French government intervention abstained from the issuance of a loan for Hungary, as belonging to the [1882] Triple Alliance:[551] the tsarist loans

[549]Jenks 1927, p. 285.

[550]Saint-Maurice 1911 [no page reference].

[551]However, despite all the pressure of the French government on the Paris exchange, it was not able to prevent another tendency. While foreign investment of French capital in the pre-war period was predominantly in state loans, approved by the French government and only in insignificant degree (for the Balkan countries) the French war factories, the kings of German metallurgy, captured in their hands French mines, placed there capital, acquiring a considerable influence. The Gelsenkirchen company acquired concessions in Grusnes, Villerupt, Saint-Pierremont and Sexey; the Thyssen firm supervised mines in Batilly, Jouaville, Bouligny; others German firms acquired participation in the mines of Jarny, Murville, Moutiers, Conflans and Valleroy and so on (Peyerimhoff 1915, pp. 154–55). The French government was very anxious about this penetration of

in France were a striking example of the close connection of loans with policy. In our time, in particular in the United States, issuances of foreign strange loans are actually made dependent on the consent of the federal government. This dependence goes so far that Hallinan sees in this even a serious danger for the development of the export of American capital.[552] In this way imperialist control over loans creates a danger almost for imperialism itself! Of course, this control, the antipode of former non-interference, pursues not the interests of protection of domestic creditors, but purely imperialist interests.

8. Investment in the colonies, and also in Turkey and Egypt

As we have seen, in another form foreign investment is closely related with political factors already under Napoleon III, in the epoch of the railway construction in Europe. Of course, this is not yet the epoch of imperialism; there are only some elements of the latter.[553] Colonies do not yet play a significant role. When in 1856 a group of English capitalists, with Lord Stratford de Redcliffe as head, came forward with the project of a railway in Mesopotamia from Aleppo to the Euphrates (they secured from the sultan a 6% guarantee upon their capital), the English government, in the person of Palmerston, on the cut refused to give its guarantee.[554] And meanwhile the projected road was to connect England through the Euphrates with the north-western border of India. Napoleon III was also opposed to plans of a 'Mesopotamian empire', although he tried to penetrate even into Mexico. The English government also refused to subscribe to the shares of [Ferdinand] de Lesseps (Suez Canal). For the England, as well as for the France of that time European interests still possessed dominance over colonial interests. We will now see this by the history of investments of English capital in India, Canada, Australia. We note still only the following: already now after the [1848] February Revolution, a new plan was created [for] Turkey with

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German capital in France; on this soil occurred collision of imperialist interests. But, from the other side, German capital was useful. Through special limitations in treaties France tried to shield its imperialist interests from 'German dominance'.

[552] Hallinan 1927.

[553] In bourgeois literature the term 'imperialism' occurs from the middle of the last century. This term meant then simply the regime of the empire in general. So for example the Duke of Clarendon, the Ambassador of England to the court of Napoleon III, subsequently English Minister of Foreign Affairs, in 1862 published under the pseudonym Flaneur a book entitled *Ten Years of Imperialism in France. Impressions of a flaneur*. In his novel *Tancred*, published in 1847, Disraeli offers Queen Victoria to transfer her throne to Delhi in India, where she receives the title of Empress; after only thirty years, Disraeli carried out this, his thought; Queen Victoria was proclaimed empress of India. The current bourgeois authors apply the term imperialism to the reign of Victoria, to her epoch, for example, Bodelsen 1925.

[554] Jenks 1927, pp. 304–5.

the help of concessions on a semi-feudal, semi-capitalist basis; this plan belonged to Lamartine and, like the Credit Mobilier project of the brothers Pereire, it was a mixture of Saint-Simonism, bankocracy (promoter) and imperialism. Lamartine organised in the fifties, with the help of English capital, a company that received from Turkey (in the vicinity of Burgas-Ova) a concession for 22,000 hectares of land with quasi-feudal rights; Lamartine's associates held talks with the grand vizier regarding a loan for Turkey, railway construction, agricultural colonies, the foundation of a bank, reform of the Turkish currency, foundations of mining enterprises.[555] Imperialism was already, so to speak, outlined. But the English government did not support its own capitalists; [and] the French government was too preoccupied with its internal affairs. In Marx are dissected the already earlier in England published works of Edward Wakefield (*England and America*, 1833; *The Art of Colonisation*, 1849), in which it is argued that 'wealth accumulated in the hands of British capitalists more rapidly than it could be expended',[556] that as a result of this there are periodic shifts of boom and depression, that 'water, steam and mechanism are creating goods and destroying customers'.[557] The author [Wakefield] already at that time preaches systematic colonisation.

The crisis of 1857 in the history of investment of English capital is a turning point in the sense that, after suffering heavy losses in the United States and Europe, the English capitalists move to strengthened investment of capital in India. 'In 1857, – we read also in Tugan-Baranovsky, – export into East India leaps up fast: wishing to compensate themselves for the reduction of European and American markets, English capital rushed into Asia'.[558] Thus, on the background of the cyclically returning crises of the capitalist economy here occurs a determined evolution, a step forward is taken in the direction to imperialism. Jenks underlines that in the beginning of the era of railway construction the establishment of English aristocratic-Whigs received income from India without any investment from its part; this was mainly income from administrative posts, land ownership, and so on. At first also the railway projects in India meet opposition in England. Charles Dilke and others fear that 'the railways would make India for the first time a nation', and the English government even tries to stop all initiatives in this matter.[559] The situation changes only after the mutiny

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[555]Jenks 1927, p. 403.
[556]Jenks 1927, p. 81. ['The lack of opportunity for investment at home has frequently been assigned as the cause for the export of capital. And this explanation was offered in its justification in the eighteen-thirties. Some time before Rodbertus and Marx and Hobson, Edward Wakefield and his group of colonial reformers were arguing that' ... (Jenks 1927, p. 81).]
[557]*Circular to Bankers* 1840, paraphrased by Jenks 1927, p. 362.
[558]Tugan-Baranowsky 1913, p. 123.
[559]Jenks 1927, p. 216.

in India. It coincided in time with the crisis of 1857. From this moment railway construction in India begins to strengthen, but for the sole purpose of ensuring the possibility of speedy movement of troops in the event of a repeat of insurrections. This situation, evidently, was taken advantage of by money capital, and in its wake also industrial capital in England. From 1854 to 1869, the size of English investment in India amounted to £150 million (of which 69.5 million on railways), with the English government giving a 5% guarantee. From 1865 to 1878 – with the exception of 1862–65, the period of cotton boom in India, caused by the civil war in America – in England annually a loan for India is issued. It is characteristic that just during the cotton boom these loans cease; one may have thought for 'productive' investment this would have been, on the contrary, the most suitable time. In this regard of particular interest is the statement of Lord Lawrence in English Parliament that railways in India could have been built one-third cheaper than the amount spent for this.[560] On this construction, of course, English heavy industry was enriched, and also English shipping, since one-third of all railway investments went to rail orders and other material, as well also on transport of them by sea from England. In essence the system of railways, based mainly on the connection of the three capitals of the English 'Presidencies' – Bombay, Calcutta and Madras, – could not contribute to the real development of a native economy; as Jenks says, it 'was calculated more to disturb than to transform existing economic relations in India'[561]. It is curious how the matadors of imperialism at that time rejected accusations of exploitation of the metropolis of its colonies; they declared 'an anachronistic prejudice' the view that one country can profiteer on another. But interests on English loans, of course, were taken from the Indian taxpayer-peasant, tearing the shirt from his back. These loans, however, partly went to the construction of canals; in addition, the indigenous cultivation of indigo expanded thanks to loans of English merchants; even greater development was achieved, however, in the cultivation of opium... In 1869 the Duke of Argyll decided that henceforth all works of a public nature will be executed in India by the government; this contradicted the principle proclaimed in his time by Palmerston that government should be on the sidelines of financial endeavours.

The situation was similar in Canada. The English government and English capital in the forties and fifties were little interested and even negatively treated the construction of railways in Canada. The Ministry of the metropolis was only interested in carrying out strategic highways. Instead of an English government guarantee for Canadian railways, at

[560]Jenks 1927, p. 222.
[561]Jenks 1927, p. 227.

the same time there was even question of a Canadian guarantee for English investment! Railway construction in more or less extensive scale begins here only in the sixties, as in other countries. In 1860–76 Australia received in the form of loans from England fifty million pounds, Canada and other colonies – twenty-five million.

In Turkey, the English government still continued to hold out its old policy: the protection of Turkey against Russia, which in fact was tantamount to guarding the old regime in Turkey. Some shift in English politics in relation to Turkey occurred only in 1875. Even earlier Turkey becomes an Eldorado for English and French money capital. The London and Paris exchange are equally interested in the financial turmoil in Turkey, they provided counter-acting reform projects, picked up in their hands the management of 'Ottoman debt', threw the Porte into usurious loans and profited on the ruin. When in 1858 a Turkish loan was designed with the special purpose of withdrawing from circulation the Turkish paper money, the London exchange opposed this plan. This was its kind of dialectic: creditors are no longer afraid of the bankruptcy of the debtor, but, on the contrary, speculate on ruin.[562] In 1855 France and England guaranteed the trapped Porte a loan of 125 million and in the form of default of the last obligation, and also in view of the negative result to which the in 1859 created Commission of the powers came, in 1866 was laid the beginning of European control over the finances of the Ottoman Empire. This was a golden time for money capital, precisely money, it does not yet become finance capital in the Marxist sense; in the role of finance capital appears later German capital with its project of the great Baghdad railway, so characteristic for the plans of imperialist expansion in the Middle East. Palmerston did not attribute yet great importance to the fact that the Suez Canal was to bring Liverpool closer to India; he officially stated that 'for the last fifteen years Her Majesty's Government have used all the influence they possess at Constantinople and in Egypt to prevent that scheme (of the Suez Canal) from being carried into execution. ... The scheme is founded in hostility to the interests of this country – opposed to the standing policy of England in regard to the connection of Egypt with Turkey'.[563] But over time English policy changes dramatically.

To the extent that in Turkish and Egyptian papers significant English (and French) capital was invested, to the extent that, on the other hand, there was found a complete weakness of the 'sublime Porte', and usurious creditors likewise brought Egyptian finances to the brink of collapse, in English politics the doctrine of the integrity of the Turkish empire receded to the

[562]Lovett spreads this tactic of money capital also to our time of domination of finance capital. He writes: 'It is to the advantage of the trader to have his customer prosperous, while to the banker or loan shark the bankruptcy of his client may be his most profitable transaction' (Lovett 1924, p. 52)..

[563]Jenks 1927, p. 303. ['The obvious political tendency of the undertaking is to render more easy the separation of Egypt from Turkey'.]

back stage in front of other interests. When on 7 October 1875 the Turkish government, following the advice of the Russian ambassador, stated that in the subsequent five years it will only pay half of the coupons with gold, Disraeli took a hasty and unexpected decision. On 26 November, not asking for the consent of the parliament, he secretly bought for four million pounds 176,000 shares of the Suez Company and instructed the London Rothschild to immediately deposit this sum. Thus, England's foreign policy in the Turkish question changed in a radical way. It is notable that this change of the front took place under Disraeli, 'the father of English imperialism'. In a letter to Lady Bradford on 25 November Disraeli wrote about the purchase of shares in the Suez company: 'We have had all the gamblers, capitalists, financiers of the world, organised and platooned in bands of plunders, arranged against us, and secret emissaries in every corner, and have baffled them all and have never been suspected'.[564] In fact, Disraeli's policy meant the beginning of a new era, paved the way for finance capital. Disraeli was not mistaken in the quoted letter since he, having bought up stocks on the cheap, 'baffled' the stock wolves, usuriously profiting on Turkish and Egyptian debts; these were representatives of money-, more accurately – even of usurious capital. But behind the back of new events already performed on stage a new boss, finance capital. In this respect it is significant that whereas before, in the classical era of the rule of money capital, the English government refused formal interventions to protect creditors, now the English government has not only accommodated itself into the Egyptian financial turmoil, but so to speak intervened in the heart, itself bought Suez stocks. For finance capital this policy opened wide prospects, as this would inevitably would have to be followed by English mastery of Egypt. If Disraeli was wrong to snatch these shares from under the nose of France, – the French government would not have dared to obtain all the shares of the Suez Canal, fearing to turn England against itself, – if the entire French press and de Lesseps himself warmly welcomed the step of Disraeli, then, as the near future showed, the change in English Near East policy called forth the collision of Anglo-French imperialist interests in Africa.[565] The old doctrine of Palmerston and Stratford-Canning (English Ambassador in Constantinople), which consisted of a realisable sufficient modernisation of Turkey and make it a buffer against Russia's expansion, had suffered fiasco.

[564]Quoted in Jenks 1927, p. 409.
[565]Let us emphasise that 1875, as a turning point, coincides in general with our adopted dating of the newest imperialism around the time of the end of the Franco-Prussian War. According to Jenks's scheme of crises, this turning point coincides with the crisis of 1873.

> The England, – says Jenks, – that Disraeli electrified with his purchase of Canal shares was a different England from the one that muttered at Baring's dealings with the French. That other England (in the era of Baring) had been a landholding aristocracy, which had begun to make community with the "great commerce" of London and with the Manchester mill through the increment of value which the industrial transformations were brining to the land, through joint propietorship in the Funds, and through joint recourse to the deposit banking system. These relations were those of an exceedingly loose partnership. England was still the land, or the beneficiaries of land.
>
> That England had all but been submerged in 1875. The landholding aristocrats lost their significance. The great commerce – by this the author, obviously, understands big money and bank capital (*F. K.*) – had been welded into a continuous whole with the mills of Manchester, Birmingham, Sheffield and Leeds, by the railway and the Stock Exchange. ... England was now a country of stock- and bond-holding aristocracy. Land was just the conspicuous visible sign of the invisibly accumulating grace of in the financial world. The real interests of the men of property now lay in stocks and bonds.[566]

9. The transition to imperialism

It is precisely then, when the above-described evolution occurred, that in the balance of settlement [*raschetnom*] (payments [*platezhnom*]) of England there was an extremely important, characteristic upheaval. For all the years from 1854 to 1875 (except for only one year) the balances of capital and interest were for England positive, only beginning from 1876 these balances become negative.

In this respect the table compiled by Jenks is very indicative. He tries to capture in it the real movement (migration) of English capital. We give this table in full in view of its importance.

Table showing the balance of payments [*platezhnyj*] of the United Kingdom and the net movements of capitals[567]

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[566] Jenks 1927, pp. 326–27.

[567] Jenks 1927, p. 414. Column five is obtained after subtracting column one from columns two, three and four. In column one, of the import balance, there is a surplus of imports over exports (taking into account also the movement of gold bullion). As for column three, Jenks clarifies it in the following way: 'Where imported goods were shipped by English firms residing abroad, or where exports were to be marketed abroad through English

Import balance (I)/ Net freight earnings (II) / Foreign trade earnings (III) / Insurance, brokerage etc. (IV) / Capital and interest balance (V) (in millions of pounds sterling)

	I	II	III	IV	V
1854	40.6	24.0	42.4	7.9	3.7
1855	34.0	25.2	11.9	7.7	10.8
1856	34.1	25.3	14.4	9.1	14, 7
1857	33,5	26.6	15.5	9.9	18.5
1858	33.7	27.4	14.0	8.9	16.6
1859	17.0	27.3	14.4	10.2	34.9
1860. . ..	49.9	27.4	17.3	10.6	5.4
1861.	55.5	28.7	17.1	10.4	0.7
1862.	61,1	29.6	17.4	11.3	-2.8
1863	54.9	32.2	18.8	12.6	8.7
1864	66.1	34.6	21.7	13.5	3.7
1865	57.5	36.5	21,8	13.1	13.9
1866	67.8	37.2	24.2	14.7	3.6
1867	57.8	37, 3	22.8	13.5	15.8
1868	70.1	37.5	23.6	14.2	5.2
1869	61.61	37.6	24.2	14.2	14.4
1870	68.0	39.2	25.4	14.9	11.2
1871	50.4	41.2	27.7	17.2	35.7
1872	36.1	43.7	30.5	18.2	56.3
1873	61.0	45.7	31.3	18,6	34.6
1874	70.6	48.2	30.4	18.0	26.6
1875	96.1	49,8	29.8	17.9	1.4
1876	125.4	5.1.0	28.7	17.4	-28.3
1877	138.8	53.0	29.6	18.1	-38,1
1878	127.5	55.5	28.0	16.8	-27.3
1879	107.2	57.6	27.7	16.6	-6.3
1880	119.5	59.8	31.7	18.3	-10,2

houses, mercantile profit is an invisible item to be placed in the balance in England's favor'. The size of trade profit Jenks determines at five per cent of the turnover of foreign trade. The table does not account profit of enterprises located abroad, nor the expenses of English tourists and money remittances of emigrants to their homeland.

According to the data of the table, we have for the years 1854–75 a positive 'balance of capital and interest' of £336.6 million, and for the years 1876–80 a minus of £110.2 million.
The total figure of English investment abroad was estimated by [Robert] Giffen in 1878 at £1,300 million, by Seyd for 1875 about 1,200 million; by Nash (1880) the following specification of these investments is given:

Loans to foreign states and guarantees	£500 million
Railways in Europe, United States and South America	240
Debts of the United States	200
Railways in India	90
Debts of India	70
Debts of the colonies	50

This summary includes only securities (by nominal value). It does not include investment in private industrial enterprises.
Nash admits that the figure of £1,200 million in 1880 could be the result of simple annual reinvestment of interests and dividends on old foreign investments of England, wherewith these last are taken for 1854 (together with Bowley[568]) at £434 million. Jenks does not agree with such an estimate and assumes for English investments of 1854 only between 195 to £230 million. In that case, by 1880 this sum plus interest, as well as income from reinvestment of the latter from 5%, finally, plus export of capital for 1854–75, gives, in the opinion of Jenks, as a result, little dissimilar from the above figure of £1,200 million. In the general Jenks believes that English export of capital, for the period from 1815 to 1875 amounted to about half a billion pounds.
The last official English estimate of income of foreign investments for 1926 estimates the net income from foreign investments of English capital at £270 million. Capitalising it from 5%, Hallinan gets the general figure of England's foreign investment in our time of £5.4 billion.[569]
For comparison we give the figures of export of capital for the last years:

1908 £146 million

[568]Bowley 1905.
[569]Hallinan 1927.

1909	182	<data from Midland-Bank
1910	189	
1920	53.2	
1921	115.7	
1923	136,2	<according to 'Balances des Payments', 1926, Geneva
1924	134.2	
1925	87.8	
1926	122	< Estimation of Varga
1927	153	< *Statist* 2 January 1928.

In 1900 foreign investment accounted for twenty per cent of all new English capital investments, in 1906 – sixty-five, in 1913 – eighty.
George Paish, editor of the journal *Statist*, estimated in 1916 the main English investment abroad at £3.4 billion. According to Paish, English foreign investments were distributed on the eve of the world war in the following way:

Railyway investments	£1.521 million.
Government securities	960
Mines	273
Finance, land and investment companies	244
Municipal loans	148
Commercial and industrial securities	145
Tramways	78
Banks	73
Total	£3,442 million.[570]

So, over 60% of English foreign investment was placed in railway construction abroad or in loans to foreign governments (about 370 million); further, 14% in mining, trams, telegraph and telephone, electric, power stations, gas, water supply, docks, canals; 16% in finance, land, trade and industrial societies (among the latter a significant role played by breweries

[570] Given in Hobson 1916, p. 31.

and distilleries) and in banks. The figure of Paish at £3.442 million[571] on the eve of the world war could have been considered as not contradicting the figure quoted by Hallinan for 1927, namely £5.4 billion, if we take into account post-war investments of England and reinvestment over the past interval (1914–27) of earnings from old investments; this is contradicted, however, by the fact that during the war England was forced to sell to America a significant part of its foreign investment.

In conclusion let us note the difference between English and French (pre-war) investments. Compared with the French, the English investments went to far more productive purposes. Regarding the state loans of France for unproductive purposes J.M. Keynes wrote: 'They reached their utmost limit of magnitude [and of imprudence] in France in the twenty years preceding the war. No investments have ever been made so foolish and so disastrous as the loans of France to Russia, and on a lesser scale, to the Balkans, Austria, Mexico, and Brazil, between 1900 and 1914'.[572]

[571] Hobson (1916) too estimated English foreign investment before the war at £3.714 million.

[572] Keynes 1924 [quoted in Culbertson 1925, p. 360; or Keynes 1981, p. 277]. Moulton and Lyons (*The French Debt Problem*) emphasise that at the eve the world war more than two-thirds of foreign investment of French capital, that is about thirty billion gold francs, were placed in Europe, including Turkey, and more than half (in 1902) in state loans, [and] in 1914 only one billion gold francs was invested in the United States and Canada, whereas 11–12 billions in Russia.

Chapter Seven

Contribution to the Methodology of the Study of the Problem of Capital Export (1929)

Vladimir Dokukin

As the titles of Dokukin's articles indicate, they are theoretical and remain at a high level of abstraction. He intended to move further to a concrete study of the contemporary situation of capital export (like Kapelusz in chapter six did for its history), but that part was never published due to whatever circumstance.

In this article and in the following one (see chapter eight), Dokukin gives much attention to the positions of Spektator (Nachimson), who had written the introduction to the Russian translation of Charles Hobson's *The Export of Capital* (see chapter five for Dashkovsky's review). Before the war, Spektator often wrote in Kautsky's *Die neue Zeit*, the weekly magazine of German Social Democracy.

Dokukin decries that in Hobson's 'analysis there is no connection of the problem of capital export with world foreign trade, [that is with] the problem of sales and the pursuit of markets'. That connection mostly is not thought of nowadays either, for instance in criticism voiced against IMF and World Bank loans (and when there is insistence on an alternative kind of foreign trade, with the aid of development grants, attention then is just on the capital-importing countries). Also in the dismay over how, through investment, outside corporations can take control of a poor country's natural resources, again the connection with the pursuit of sales markets is not obvious (for by the act of this investment itself these corporations are not exporting capital in the form of commodities, for instance means of production like raw materials, to the poor country).

The question of the reason or *cause* of capital export, is *not* the topic of these two Dokukin articles. When Dokukin, just in passing (like Dashkovsky in chapter one), assumes that a higher rate of profit abroad is the reason for capital export, this is not central to his study, which is rather about the *definition* and *source* of capital export. Lenin himself rejected this thesis when it is formulated so categorically: capital export also happens between developed countries themselves (not only in the direction of colonies), which have similar profit rates.[573] As already touched in our introduction to chapter five, the thesis was also rejected by for instance Grossman as a consequence

[573] For the two Lenin-quotes, see our footnotes in chapter four and eleven.

(but not his only argument) of his position that there exists a world single rate of profit. We saw that Petrov held this same position (of a single world rate of profit), so he too, – if he wrote about the reason for capital export (likely in his 1929 book, which was not available to us), – probably would not believe the cause was a higher rate of profit abroad.

Vladimir Ignat'evich Dokukin was born in Zima (Irkutsk) on 23 July 1894, in a family of a railroad worker at the Trans-Siberian Railway. He joined the party in 1918 and helped establish Soviet power in Siberia. In the mid-twenties he studied, among other places, at the Institute of Red Professors in Moscow. He was sent to the United States in 1928–29, apparently visiting New York University (in 1930 he also wrote a study on US railways). Professor in 1938, subsequently headed the department of political economy of the Moscow Higher Technical School (Bauman University) for many decades. Received a medal on his ninetieth birthday. He died on 19 January 1987. Wrote or edited such books as: *Two Worlds – Two Systems* (1958), *The General Crisis of Capitalism* (1963), *The Economic Program for Building Communism* (1964), *Modern Bourgeois Political Economy in the Service of Monopolies* (1966), *Critique of Modern Anti-Marxist Economic Theories* (1974), *Critique of Bourgeois Interpretations of Scientific and Technological Progress under Socialism* (1980).

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The problem of capital export occupies the most important place in the general theory of imperialism. Economic analysis of this problem unravels one of the most complex knots in the development of capitalist economy of latest formation and gives the key to understanding other aspects of the economic and political expansion of monopoly capitalism. Herewith in one or other degree is to be filled the gap in Marxist theoretical literature which undoubtedly exists in the domain of the special elaboration of the question of capital export.

We carry out the theoretical elaboration of the problem in three facets:

1) economic characteristics of the concept of 'capital export';

2) analysis of the fundamental sources of capital export, in terms of expanded reproduction;

3) analysis of the driving forces of capital export.

Only on the basis of general conclusions of theoretical analysis can we, in a further step, move to the clarification of the concrete process of the freeing-up of social capital for export

abroad. This second part can be formulated as the problem of the market of exported capital and requires ascertainment of the concrete movement of capital accumulation in the most important capitalist countries, – in other words, – requires study of the concrete-economic manifestations of the general tendency of modern capitalist economy in the typical for it form of expansion – capital export.[574]

The development of the concept of capital export in a theoretical frame started relatively recently, and the range of literature that treats this problem is very limited. From the key works in this area one should mention the work of the German economist Sartorius von Waltershausen published in 1907, where the author attempts to give a theoretical formulation of the problem of foreign investments; further the articles of professor Arndt (1912) and the circumstantial study of Hobson *The Export of Capital*, which appeared in 1914. Also should be mentioned the work of Viner (1924), where is given an analysis of the influence of capital import; Reibtniz (1926) and Edwards (1926), where is given a small theoretical introduction to the problem of capital export with a more in-depth analysis than in Hobson.

These works mainly exhaust the theoretical literature treating the problem of capital export, its nature and driving force. The rest of the literature on capital migration, which appeared in recent years, is mainly of a narrow monographic character. In this spirit was written a series of studies by Moulton and his collaborators on the balances of trade and payments of different countries in relation to the problem of European debt, Harvey Fisk (1924) on international financial relations after the war, Boggs (1922) on the international trade balance in connection with capital investments, Jenks (1927) on the migration of English capital to 1875, Edwards on foreign investments, and so on. To the same category belong Varga's conjuncture overviews and the works of Klenovich.[575]

All what Marxist theoretical thought gave in this important problem is scattered in various general works on imperialism and finance capital, among which the works of Lenin, Bukharin, and Hilferding occupy the main place.

The problem of capital export is of concern to Pavlovich (1922), Pashukanis (1928) and Varga (1928) in their works on imperialism, but all three authors, although they provide at the beginning of the relevant chapter on capital export the famous position of Lenin, that '[t]ypical of the old capitalism, when free competition held undivided sway, was the export of *goods* [, whereas t]ypical of the latest stage of capitalism, when monopolies rule, is the

[574] [This announced part of Dokukin's study did not appear.]

[575] [Born in 1889 in Zaporozhye, Klenovich joined the Bolshevik party in 1918, deputy editor of *Ekonomicheskaja zhizn'*, executed in 1934.]

export of *capital*',[576] nevertheless devote to this important problem of modern imperialism extremely little space.

In the works of Spektator there is a more circumstantial elaboration of the theoretical side of the problem.[577] He correctly poses the question of the nature of capital export, by giving this problem detailed economic characteristics. Yet in the explanation of the reason for capital export one definitely cannot agree with Spektator, who puts the centre of gravity of the question in the 'slower accumulation of fixed capital in agriculture, than the growth of its output', as a result of which an excess of capital is formed.[578] Such an interpretation, for all its external credibility, does not coincide with the essence and spirit of the Marxist conception, is theoretically not sufficiently justified and does not explain the specific features, peculiar to monopoly capitalism, as we will try to show below.

Thus we see from this brief review, that the elaboration of the problem of capital export in theoretical economic literature started quite recently and is far from complete.

In the study of the problem of capital export – a phenomenon of a very long historical order – should be persistently emphasised the fundamental social-economic difference of capital export in the period of commercial and industrial capitalism from capital export in the epoch of imperialism. Similar forms of capital flows in all previous phases of development of capitalism should not obscure in our analysis the specific features and meaning of capital export as the characteristic and typical phenomenon of the epoch of imperialism.

Hobson, for example, in his chapters dedicated to the genesis of the modern export of capital, completely erases the whole peculiarity of capital export in the era of monopoly capitalism and its qualitative difference from all previous forms of capital migration. So, for example, Hobson argues that modern capital export is merely a development of the movement of capital which was observed already in the time of Henry IV (fifteenth century) and especially during the period of the East India Company.[579] Spektator, giving an alternate characterisation of the nature of capital export in the period of monopoly capitalism, is entirely correct to stress the peculiarity of capital export in the new era.

Capital export in the period of commercial and partly industrial capitalism is one of the functions of foreign trade. Colonial policy of the sixteenth and seventeenth century increases the flow of European capital into overseas countries, and the resulting trade profit departs over the border again in the form of trade and commercial-loan capital. As a characteristic

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[576] Lenin 1917, p. 240.
[577] Spektator 1928a, 1928b and 1924–29.
[578] [This will be criticised in Dokukin's next article (our chapter eight).]
[579] Hobson 1914, p. 83. [This is Charles Hobson.]

example of how the metropolis used the exported capital can serve the activities of the East India Company, the capital of which was used by the company itself in the interests of domestic commercial capital.

To the interests of commercial capital were also subordinated foreign investments of a later period, associated with the railway construction. Each new line of colonial railways meant a deeper penetration of capital of the metropolis in the resource base of the colony and even more increased the sales of domestic commodities. This we see in the example of the construction of railways in British India, which caused a huge demand for English commodities. '[A]bove all – writes Hilferding – railways were the most important means of opening up foreign markets'.[580] 'Excess' capital flows in the colonies along with the development of foreign trade in chasing after a higher rate of profit. Marx in the third volume of *Capital* dwells on this in sufficient detail:

> Capital invested in foreign trade can yield a higher rate of profit, firstly, because it competes with commodities produced by other countries with less developed production facilities, so that the more advanced country sells its goods above their value, even though still more cheaply than its competitors. [...] As far as capital invested in the colonies, etc. is concerned, however, the reason why this can yield higher rates of profit is that the profit rate is generally higher there on account of the lower degree of development, and so too is the exploitation of labour, through the use of slaves and coolies, etc.[581]

Another type of capital export in the era of commercial and industrial capitalism is loan capital, which goes abroad in the form of loans to individual states and state-owned enterprises with the goal of obtaining the corresponding interest. Holland of the eighteenth century was the centre which supplied capital to the English and French governments, English, French and Danish colonial enterprises. Loan capital was directed to foreign trade, maritime transport, insurance of shipping, predominantly enthralled merely with the interest [income]. Banks and individual creditors do not display a special concern in how loaned capital is used, – they are only concerned with the rate of interest and degree of risk. The export of capital pursues completely different goals in the era of monopoly capitalism, in the era of imperialism. This is recognised also by bourgeois economists. So, Harms, dwelling

[580] Hilferding 1981, p. 323.
[581] Marx 1981, pp. 344–5. [See our excursus on this quote in our introduction to chapter two.]

on the export of capital, notes that 'the historian can perhaps object to this reasoning that in essence it contains nothing new, since the placement of capital abroad played an important role already for centuries. The latter point should be reckoned with, but the former rejected'.[582] Bienstock in his book [*Introduction to the World Economy*] indicates 'the significant difference in character of the capital export in the sixteenth and eighteenth centuries from the capital export which is the peculiar marker of world economic development of the nineteenth century'.[583]

What then is the social-economic essence of capital export, this newest form of capitalist expansion, in the epoch of imperialism?

In this aspect, we face two problems:

I. Theoretical analysis and definition of the concept of capital export.

II. Analysis of the main causes and sources of capital export from the viewpoint of expanded reproduction.[584]

Let us begin with the first problem. Above we pointed to a number of works, that attempt to provide theoretical coverage of the new economic processes which are connected with capital export. Let us dissect the most important of them.

Sartorius von Waltershausen defines capital export as the placement of a certain amount of value abroad with the goal of profit extraction. In essence we have before us a general positive definition of invested capital with the additional indication of the sphere of its activities 'abroad'. If it is possible to admit the correctness of this definition, then the main methodological demand which should be addressed to it, – is an obligatory specification of the concept of 'abroad'. Sartorius notes that capitalist 'national economies' are connected by world exchange into 'a vast socio-economic formation of modernity'; however, in the special chapters on capital export he does not clarify the role and significance of this 'formation'. Without going into a special analysis of the concepts of the external market and the world economy, it is still necessary to note the incorrect and vague interpretation of Sartorius of the concept of world economy as a phenomenon, resting on the development of international exchange, which is due to the existence of legal agreements between states.[585] In Sartorius we, however, meet some remarks on the significance of the social division of labour, the partition of production, mass turnover, which favourably distinguishes him from a number of other bourgeois economists, who in analysis of the concept of world economy try to hide

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[582] Harms 1920, p. 112.
[583] Bienstock 1927 [no page given].
[584] [This will form the subject of Dokukin's next article (our chapter eight).]
[585] This definition unites Sartorius with Harms. See *Manchester Guardian Commercial* 17 April 1924 and Harms 1920, p. 124.

behind legal categories and transfer the centre of gravity of the treatment of the problem to the non-economic field.

On the other hand, it is theoretically quite wrong to consider the extraction of (additional) income as the defining marker of the concept of capital export, as Sartorius does. This remark applies in no less degree also to Hobson. Hobson defines capital export as export 'with the aim of obtaining from abroad an [additional] income'.[586]

To say that capital export is aimed at obtaining income from abroad, means to throw into one heap a series of completely different categories which may be designated as income, for example: commercial profit, loan interest, profit from transportation and so on.

Hilferding most correctly defines the socio-economic essence of the export of capital in his analysis of capital export in the era of monopoly capitalism. In this case we are dealing with 'the export of value which is intended to breed surplus value abroad'.[587] It is particularly important to understand this distinction of capital export in the era of the imperialism from all previous forms of capital movement: here it is not about loan interest, but about industrial profit.

Spektator gives a more developed theoretical description of capital export, noting, that it creates 'such common relations between different countries, under which a country exporting capital has the opportunity to receive part of the surplus value created in the country importing capital'.[588] Such definition can be consider in general correct. Unclear is only one thing: why several lines earlier Spektator solidarised with the definition of capital export of Hobson who, as indicated above, did not satisfy the most humble methodological requirements.

Herzenstein in his review of Hobson's book goes even further, arguing, that 'Hobson is entirely correct to consider the defining marker of capital export the successive systematic retrieval of *income* from abroad'.[589] We have the right to ask the question: what in that case distinguishes capital export from direct export of commodities?

A number of economists, treating the problem of capital export, try to place the constitutive marker of the socio-economic essence of capital export in its credit form.

In the works of Hobson, Boggs, Edwards and other bourgeois economists there is special emphasis on the point, that the essence of capital export lies in credit relations, wherewith the latter in their conception determine the relations of production and exchange. It is

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[586] Hobson 1914, p. 231.
[587] Hilferding 1981, p. 314.
[588] Spektator 1928b.
[589] Herzenstein 1928b.

absolutely obvious, that this 'credit' conception, ignoring the analysis of capitalist reproduction, where it is necessary to find the solution to the problem capital export, is not able to satisfactorily resolve the treated question.

For a characterisation of the tone of this 'credit' direction in Marxist literature let us take the definitions of Ugarov and Herzenstein.

'We will consider – writes Ugarov – capital export as the *transfer* of certain sums of capital, accumulated within one capitalist 'national economy', either to another capitalist 'national economy', or to a country with pre-capitalist economic organisation by way of credit with the purpose of its most beneficial economic use'.[590]

In essence this definition is a paraphrase of the [Charles] Hobsonian definition of capital export with a characteristic accentuation on the 'transfer of sums by way of credit'.

'From our point of view, – writes Herzenstein, – capital export can be considered a special way of moving property ... The credit character of the movement of the value of exported capital is an extremely important attribute...'.[591] Before us, thus, is a pronounced credit conception in the definition of capital export.

Supporters of this conception overlook, that with capital export there is no movement of property. Hilferding correctly indicates, that, if the owner moves together with the export of capital to another state territory, then this means denationalisation of capital, and not its export:

> By "export of capital" I mean the export of value which is intended to breed surplus value abroad. It is essential from this point of view that the surplus value should remain at the disposal of the domestic capital. If, for example, a German capitalist were to emigrate to Canada with his capital, become a producer there and never return home, that would constitute a loss for German capital, a denationalization of the capital. It would not be an export of capital but a transfer of capital, constituting a deduction from the domestic capital and an addition to the foreign capital. Only if the capital used abroad remains at the disposal of domestic capital, and the surplus value produced by this capital can be utilized by the domestic capitalists, can we speak of capital export. The capital then figures as an item in the national balance sheet and the surplus value produced each year as an item in the national balance of payments.

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[590] Ugarov 1926.
[591] Herzenstein 1928.

> The export of capital reduces *pro tanto* the domestic stock of capital and increases the national income by the amount of surplus value produced.[592]

When we speak of value, delivering surplus value, then we have in mind not only the fact of the movement of value, but also the reverse inflow of surplus value into the country exporting the capital. If the received surplus value for a long time does not return to the source from where the capital was received, but is capitalised in the same country, then such a phenomenon is equivalent to new additional capital export. Ultimately, the growing surplus value in one form or another comes back, and already the mere right of the exporting country to demand back the exported capital plays a huge role. As Spektator correctly notes, this right is used for putting pressure on debtors, threatening them by a retrieval of capital.
Analysis of the export of *loan* capital does not bring anything substantially new in the economic characteristics of capital export. The fact that loan capital yields an interest, that it increases, is not explained by any special properties of loanable money, but by determined social relations of capitalism. In capitalist conditions every sum of money is potential capital, every sum of money can be used, as productive capital, as a means of appropriation of surplus value.[593]
Not every concrete loaned sum of money in reality becomes capital. In some cases this may not occur – the loaned sum might be unproductively consumed. But basically the fact is that under this system of social relations, any sum of money can be turned into capital and in reality the predominant part of loaned money is used as capital.
In addition to the critical remarks which we brought to the address of Hobson, Boggs, Edwards, [and] directed in equal measure also against their 'Marxist' interpreters, still the following considerations should be put forward against the credit [or loan] conception.
If capital export takes place in credit form, this does not at all mean that in this case the credit element is the defining factor. Capital export is not limited to lending abroad, just as in a number of cases capital export cannot be brought under the concept of lending. Cases are possible, for example, of opening financial offices of industrial businesses in other countries for the purpose of getting a higher profit, than the one that existed in the given country. As Hilferding correctly points out:

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[592] Hilferding 1981, pp. 314–5. ['Hilferding's concept of capital export, and following him other economists (for example Spektator), applies only to those cases when the owner does not move along with his capital; the same cases when not only the capital, but also its owner moves, are called denationalisation of capital. We doubt the expediency of such terminology, since in economic reality it is often impossible to distinguish between these two forms of capital movement' (Ziman 1930, p. 86, footnote). Ziman's article is criticised in Alkin 1931 pp. 52–7.]
[593] See Marx 1981, p. 477.

> As European capital has advanced to the stage of finance capital it has frequently begun to migrate abroad in this form. Thus a large German bank establishes a branch abroad, which then negotiates a loan the proceeds of which are used to construct an electrical generating plant, and the construction work is assigned to an electrical company which is connected with the bank at home. Or the process may be simplified further, and the foreign branch of the bank establishes an industrial enterprise abroad, issues the shares at home, and orders raw materials, etc., from enterprises which are connected with the parent bank. Such transactions attain their largest scale when state loans are used for obtaining industrial supplies. It is the intimate connection between bank and industrial capital which is responsible for the rapid development of capital exports.[594]

Rathbone and Gejman provide interesting facts, that go against the credit version of capital export and characterise the modern methods of investment.
Rathbone, elucidating the problem of the export of British capital to India, writes:

> This process takes place in two main ways. An industrial concern decides, for example, to found a factory in India. It exports necessary equipment to India, finances itself this company or provides it the opportunity of crediting by another institution. Hitherto one rarely resorted to public loans for this goal on the English market, just in exceptional cases, when this seemed recommendable to oneself and strong firms or a firm, producing, for example, such a product, as oil, the profit from which is ensured, if not on the Indian, then on the world market.[595]

Rathbone further points also to another way. Firms, which have their managing agents and possess some capital, bring to India the necessary equipment and turn to the Indian capital market, while still considering it necessary to retain general British control. As a result the tribute that Britain extracts from India very soon grows to considerable size, because in addition to the interest, which India already owes now for the concluded loans, part of the interest is capitalised in India itself, forming a new capital, with the help of which again surplus value is produced. While the visible export of capital to India decreases, the actual

[594] Hilferding 1981, p. 315.
[595] Rathbone 1928 (No. 3), p. 77. [Rathbone was a member of the Communist Party of Great Britain.]

accumulation in India will grow and at the same time grows the potential flow of money, that comes from India to the pockets of British capitalists.
Gejman, who studied in detail the activities of German export banks, writes:

> Strengthened export from one country to another is determined by a whole complex of causes and conditions, and it would be wrong, as it is often done, to allot among these some kind of entirely special place to the activity of banks. Banks and credit represent of course, a significant factor, but by far not the fundamental one ... By themselves banks cannot create exports or imports, just as they cannot create a demand or a market.[596]

Gejman emphasises the branch character of banking and credit institutions in the colonial countries. 'If you are somewhere in Bangkok or Valparaíso, pay attention to an English lending institution, it will be a subsidiary of an independent export bank – the Hongkong and Shanghai Banking Corporation or the London and River Plate Bank and so on'. The German credit institution in colonies usually represents a subsidiary not of one independent home-country bank, but something peculiar, – in the German very figurative expression; a *Tochtergesellschaft* [daughter-company] of one, more often simultaneously two or three major Berlin banks.
In analysis of the problem of capital export adherents of the credit conception make the credit relation the constitutive feature. The external form in which in most cases capital export occurs, [namely] the form of a credit transaction, they take for the essence of the phenomenon of capital export. In this respect also Spektator is incorrect, who agrees with Ugarov in understanding the newest problem of capital export, as a credit transaction.[597] Such an interpretation erases the specific particularity of the newest stage in the development of capitalism, when capital export becomes a decisive factor, qualitatively different from the formally similar phenomena of previous stages of capitalism.
The technique of capital export, its credit form and the diversity of the latter, of course, are of great importance. But in this singularity is dissipated the characteristic of capital export as a social-economic category. Meanwhile precisely the socio-economic content of capital export should be the object of our theoretical analysis. Analysis of capital export must proceed from the fact that it is a determined type of social world-economic connection. Export of capital as

[596] Gejman 1917, pp. 1–2.
[597] Spektator 1928a, p. 188.

an economic category cannot be characterised by the formal attribute of credit transaction, although also long-term, as Spektator emphasises,[598] it cannot be reduced to a peculiar specific form of exchange, since it represents itself a socio-economic relation, growing and developing not on the basis of those specific credit transactions.

Attempts to treat the essence of capital export from the side of its credit form lead to neglect of the fact, that capital export emerges only through certain relations of production and exchange and is determined primarily by these relations. By virtue of this, capital export cannot be studied outside determined production relations. The credit form existed not only in different stages of capitalism, but also in the most diverse systems of national economy. As a result it is completely unacceptable to reduce the task of theoretical analysis of capital export to the study of those general laws, which are intrinsic to the phenomenon of credit.

If capital export is viewed as a determined type of socio-economic relation, in which one country has the ability to receive part of the surplus value created in another country, then the characteristics of this category cannot be exhausted with the concept of credit transaction. Capital export, as a specific social relation, has a different content in the era of imperialism and in the preceding stages of capitalism. Our definition of this category can be formulated as follows:

Modern capital export – is such a system of production relations of the epoch of finance capitalism, when the self-development of capital value occurs outside the national economy of given countries, when the process of expanded capitalist reproduction of exporting countries develops on account of surplus value produced in other national economies, acquiring thereby the character of expanded reproduction of capital on the scale of the world economy.

From this point of view, export of means of production can be regarded as capital export only insofar as the means of production function as capital, and hence, insofar as they, considered from the side of value, assuming the process of self-development of this value, must generate additional value.

Modern capital export is not only and not just a transfer of value, but a determined social relation of the epoch of the imperialism. When studying capital export, as a problem of finance-monopoly capitalism, the ascertainment is necessary of the specific trends, emerging from differences of this epoch from previous stages in the development of capitalism.

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[598] Spektator 1928a, p. 188. 'Credit should be more or less continous, in order that those relations which characterise capital export have been established'.

As we have shown above, capital export in the form of loan capital begins very early, long before the epoch of finance capitalism; moreover, its prototype in the form of usurious capital existed long before industrial capitalism, but only in conditions of the newest and latest stage of capitalism, under conditions of imperialism, does capital export acquire special significance, reach its completeness and perfection.

Bukharin pays special attention to this aspect of the question when he stresses, that '*it is only in the last decades that capital export has acquired an extraordinary significance, the like of which it never had before* (Bukharin's emphasis). ... we may even speak of a *new type* of economic interrelationship between countries'.[599]

Thus only the definition expressing the essence of capital export in modern capitalist economy of the highest and latest stage of capitalism, when capital export manifests in developed figure all features inherent in it, can be considered adequate for the characterisation of capital export, as a socio-economic relation.

Defining capital export, as the export of value with the goal of extraction of surplus value, we thereby point out the circumstance that capital can be exported in the form of commodities or money. Export of fictitious capital, as Spektator correctly notes, in essence is import rather than export of capital. Insofar as capital export takes commodity form, it does not exclude the possibility of commodity crediting. It is unclear why Spektator in his introduction to Hobson's *The Export of Capital* believes, that capital export 'excludes commodity crediting, that is credit granted on relative short-term'.[600] First, the concept of commodity crediting is not at all equivalent to the concept of 'short-duration', second, capital export, carried out in commodity form, cannot exclude commodity crediting and, third, as we have shown above, the concept of 'long-term crediting' is not at all the determining feature of capital export.

Capital export can be viewed not only as export of free capital seeking an advantageous place abroad, but also as the means of realising commodity capital, [that is] commodities that cannot be sold within the country at existing monopoly prices. Understanding this intimate dependence makes it possible to explain the imposition on a debtor country of one's commodities, which is practised in a number of cases with foreign investment and contributes to a proper understanding of the economic roots of colonial policy. As is known, the imposition of commodities on one's overseas debtors is a common phenomenon: Hobson, speaking of the fact that the growth of industry in a number of countries negatively

[599] Bukharin 1972a, p. 96.
[600] Spektator 1928b, p. 6.

influences the growth of orders to British industrialists, remarks: 'It must, however, be remembered that the increase of foreign investments by Continental nations brings with it similar competition amongst manufacturers of capital goods, and British producers are, no doubt, able to secure some share in the orders'.[601] In the footnote Hobson gives a number of examples where in loans contracts with foreign governments an express stipulation is inserted, that part of the required equipment will be ordered in the crediting country.
The conception of Hobson reflects the credit version's failure in the explanation of capital export. The problem of capital export is represented by Hobson as a problem of loan capital, as a way of placing free capital in a foreign country for the purpose of generating income. This problem in him is not organically connected with the policy of imperialism and in his analysis there is no connection of the problem of capital export with world foreign trade, the problem of sales and the pursuit of markets.

> Capital sent abroad – Hobson writes – cannot, therefore, necessarily be regarded as surplus capital which cannot trench upon the supplies of capital invested at home. On the contrary, the export of capital will tend to raise the rate of interest at home, unless it happens that the capital would not have been accumulated merely for investment at home.[602]

We see here a determined emphasis on the problem of loan capital. The case is presented in such a way that the capitalists exporting capital seek to find a more profitable place for their capital, than what they find in their country, and that the development of capital export is the result of a striving to push up the interest rate within the country.

> The causes of foreign investment, – writes Hobson, – are primarily economic, and centre in the return which capitalists expect to derive from various kinds of investments, and in the risks uncertainties which investors are willing to assume. Other things being equal, the investor will naturally prefer the investment that yields him the largest income. [...] It is clear that the growing popularity of foreign investments has in some measure caused the rise in the rate of interest, which has attracted so much attention during recent years. Whatever view be taken as to the social consequences of a high rate of interest, it is at any rate evident that the wealth of

[601] Hobson 1914, p. 16. [Again, this is *Charles* Hobson. See Dashkovsky's review (chapter five in our volume).]
[602] Hobson 1914, p. 37.

> the world as a whole benefits if capital flows to those quarters where it is most needed.[603]

According to Hobson, a country, exporting capital, by doing so 'raises the rate of interest at home, and induces capital to come in from other countries'.[604]

Absence of capital export according to Hobson's conception should lead to a lowering of the interest rate, and consequently to insufficient accumulation of capital, by contrast – the growth of capital export, raising the interest rate, should thereby lead to increased accumulation.

This conception is incorrect both theoretically and in fact. If elimination of capital export had as a consequence a decrease of the interest rate, then such a situation would be beneficial for the entrepreneurs, whose income would increase on account of a decrease in income of the rentier, not to mention the fact that a decrease in the interest rate in some cases would contribute to an increase of the rate of accumulation.

For all the above reasons we consider entirely unacceptable the replacement of the problem of capital export with the problem of loan capital and its function in the process of reproduction. The attempt to hide the social relations of the modern capitalist economy, resting on the exploitation of wage labour, behind the irrational form of loan capital, in which the appropriation of surplus value is masked by the fact of a self-development of value which occurs as if independent from the exploitation of labour forces, cannot be considered successful and new. All this is in essence a sign of the growth of parasitic elements in the capitalist economy at the newest stage of its development.

In particular the explanation of the necessity for foreign investment by the search for a high interest rate for free capital does not reveal the close connection that exists between capital export and export of commodities. This connection is correctly indicated by Spektator:

> Capital export can only take place in the form of export of value, that is in the form of commodities and metal money. Another form of value we do not know. Consequently, all the disputes, about how much capital export is connected with the export of commodities, are resolved in the sense, that this connection arises from the very essence of this phenomenon.[605]

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[603] Hobson 1914, pp. xii, xiii.
[604] Hobson 1914, p. 29.
[605] Spektator 1928b, p. 7.

In order to win on the world market, advanced capitalist countries, as Hilferding correctly stressed, strive to replace competition on the commodity world market by competition on the money market of capital. Capital export becomes a form of export of commodities.

> [T]he competitive struggle, which can only be waged by reducing the price of commodities, always threatens to bring losses or at least not to produce an average rate of profit, so that here too the elimination of competition has become the ideal of the large capitalist combines. All the more so because, as we have seen, exports have become an urgent necessity for them under any circumstances [...] But competition rules on the world market, and there is no alternative but to replace one type of competition by a less dangerous one; to substitute for competition on the commodity market, where the price of the commodity is the only determining factor, competition on the capital market in the provision of loan capital on condition that any loan will subsequently be used for obtaining goods from the country making it. The export of capital has now become a means of ensuring that the capital-exporting country will be the supplier of industrial goods. The customer has no choice; he becomes a debtor and hence a dependent who must accept the conditions imposed by his creditor.[606]

Therefore it is wrong to limit the significance of capital export only to procuration of an increased income and a high interest rate and ignore such a factor, like the existence of monopoly prices within the country and the consequent necessity to realise a determined quantity of production abroad. The struggle for markets, conducted in the form of struggle for the sphere of application of capital, leads to an aggressive and colonial policy of imperialist states, by virtue of the fact that 'economic competition is confined here within relatively narrow limits, so that the economic struggle quickly becomes a power struggle in which political weapons are employed'.[607] Hence the inevitability of imperialist wars and the colossal growth of militarism.

In his conception, which considers the cause of foreign investment the procuration of a high interest rate abroad, Hobson forgets that capital export is one of the conditions for the obtainment of a high profit rate within the country, on the other hand, he is silent about those contradictions that arise between individual countries, exporting capital, limiting [himself] to pacifist reasoning about an upsurge and the general benefit.

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[606] Hilferding 1981, p. 324.
[607] Ibid.

Defining capital export, as the export of value with the goal of retrieval of surplus value, we thereby emphasise the qualitative difference between this category and the export of commodities, wherewith in another country only that value is realised which was already created in the country exporting commodities. If exported commodities are sold above value, then this is only a normal fluctuation in prices of commodities above and below their value, but no added value is created thereby. Meanwhile capital export according to its economic nature involves the production of surplus value.

The period of monopoly capitalism is characterised by a colossal development of capital export, involved in the production of the importing country, and thus – in production and appropriation of surplus value.

The initiators of the export of industrial capital are above all cartels and trusts. These organisations are the strongest in branches of heavy industry, where there is the strongest attraction to capital export, which seeks new markets for its developing production. These heavily monopolised branches are above all interested in the construction of railways, the exploitation of mines, the growth of armaments in foreign states. Behind them stand big banks, most closely related with these branches of industry. The pursuit to increase the scale of production is very strong in the cartelised branches, wherewith this increase is counteracted by the high cartel prices in the domestic market. Expansion of sales abroad gives the greatest opportunity to satisfy the need in increasing the scale of production. Further, by virtue of their additional profits, cartels always have large savings and invest these capitals in the sphere where the profit rate is highest.

Already from a purely quantitative point of view, it is more profitable for a country if its capital is exported as capital that brings profit, and not capital, bringing interest, because profit is greater than interest. In addition, if the exporting capitalists invest their capital as industrial capital, the disposal of capital and control over it has a more direct character.

Thus we observe that the strongest desire for export of industrial capital currently characterises countries with a technically and organisationally more advanced industry.

The surplus value, which is obtained by the country exporting capital, in the process of distribution can represent either part of industrial profit or interest on capital or land rent. In this connection it is necessary to distinguish and differentiate the export of loan capital and the export of industrial capital.

> From the standpoint of the exporting country, – Hilferding writes, – the export of capital can take place in two different forms: it can migrate abroad either as interest-

> bearing or as profit-yielding capital. In the latter form, it may function as industrial, commercial, or bank capital. From the standpoint of the capital-importing country, a further consideration is what part of the surplus value is used to pay interest. Interest which has to be paid on mortgage bonds held by foreigners involves sending part of the ground rent abroad, whereas interest on the debentures of industrial enterprises represents an outflow of part of the industrial profit.[608]

The various forms in which capital is exported cannot, of course, change the essence of those socio-economic relations of capitalism, which find expression in capital export. Therefore, Spektator is wrong when he tries to supplement the definition Hilferding, who formulates the socio-economic content of capital export, based on export of *industrial* capital, as the dominant and generally-valid one – by his [Spektator's] indication to the export of fictitious loan capital.

Loan capital is a transfigured form of real capital. Loan capital – is interest-bearing capital, it is a sum of abstract claims on surplus value, indifferent to the concrete way of using loan capital, as capital. Therefore the nature of the use of capital 'for productive purposes or for the extermination of people and the destruction of the economy', that is that purposeful feature, on which Spektator relies, – as the determining moment does not play a role. Just as in money, precisely because it is an abstraction from concrete specific labour, is displayed the social character of relations of commodity producers, so too in loan capital precisely because of the fact that it is self-developing value regardless of the concrete forms of its use, is displayed the social character of relations, connected with the distribution of surplus value.

The difference between loan capital and fictitious capital can be constructed only theoretically. That fictitious capital is interest-bearing capital, this is quite obvious. Fictitious capital is only a special form of loan capital. The difference in this regard lies only in the fact that, with loan capital, interest is an offspring of loan capital, [whereas] with fictitious capital, fictitious capital itself is an offspring of interest. The very possibility of formation of loan capital is determined by the social production relations of capitalism, but from the viewpoint of possessors-owners, loan capital and fictitious capital are one and the same: both yield interest. From the general national-economic viewpoint both equally are generally-valid claims on a stake of surplus value.

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[608] Hilferding 1981, p. 315.

The contradiction of loan capital, which consists in the fact that on the one hand, it is a monetary form of real capital, and on the other is fictitious capital, that it, on the one hand, reflects the movement of real capital, and on the other hand, the movement of surplus value, entails a number of other contradictions and aggravates the general contradictions inherent in the entire capitalist system.

Chapter Eight

The Problem of Capital Export in Light of the Theory of Reproduction of Marx–Lenin (1930)

Vladimir Dokukin

This is the continuation, almost a year later, of Dokukin's previous article, which gave a theoretical *definition* of the concept of capital export. Now, in this second piece of his article-series, it is about the *source* of capital export from the perspective of expanded reproduction.

There is simple reproduction, and there is expanded reproduction. During the latter, the amount of surplus value which is newly added is greater than the amount of surplus value created before. If previously created surplus value is invested solely in new means of production (and so constant capital increases, whether in terms of value or physical volume), then this does not qualify as expanded reproduction, for, other conditions being equal, only an extra amount of hired workers can create an additional amount of surplus value whose size has expanded in comparison to the previous amount of surplus value.

Dokukin criticises Spektator. Incidentally, there is similarity to Dashkovsky's criticism of Granat (see chapter four), in that Granat and Spektator place great theoretical emphasis on simple commodity producers. Dokukin asserts: 'the main source of capital export is surplus value created in capitalist production, and not the surplus product of pre-capitalist formations cohabiting and diffused within the prevailing form of the given historical system of production'.

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The problem of capital export was not fortunate in Marxist literature. It is touched in passing, fleetingly, when it comes to characterising monopoly capitalism, and by necessity in those courses on world economy which appear in such abundance on our book market. Meanwhile the problem of capital export occupies the most important place in the general theory of imperialism. Economic analysis of this problem unravels one of the most complex knots in the development of the capitalist economy of latest formation and gives the key to an understanding of other aspects of the economic and political expansion of monopoly capitalism.

It is not by chance that bourgeois theoretical thought pays great attention to this problem. During my stay at the Institute of International Finance, founded by a group of Wall Street magnates, I encountered the great research work that is being developed around the problem of capital export by the apologists of imperialist expansion.[609] I mean above all professors John Madden and Marcus Nadler, directors of said Institute, performing at the same time the responsibilities of consultants to the New York stock exchange. We will dwell on their new theories and 'discoveries' in a next article.[610] Here we intend to draw the fundamental conclusions of Marxist theoretical analysis according to the plan outlined in our article in *Problemy ekonomiki*.[611]

Only by operating on these conclusions will we be able in a next article to clarify the concrete process of the freeing-up of social capital for export abroad. That second part could be formulated as the problem of the market of exported capital and will require clarification of the concrete movement of capital accumulation in the most important capitalist countries, – in other words, it will require study of the concrete-economic manifestation of the general trend of modern capitalist economy in the typical for it form of expansion – capital export.[612]

In the conditions of the deepest crisis in the United States, unfolding into a world crisis, the Marxist development of the problem of capital export becomes especially important, because it depicts the helplessness of the capitalist economic system to resolve its internal contradictions by external expansion. These contradictions are not only not eliminated, on the contrary they are reproduced on an enlarged scale in the frame of the world economy. Thereby collapses the notorious theory of 'organised capitalism', thoroughly opportunistic in its fundamentals.

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The majority of bourgeois economists, who investigated the problem of capital export, either in passing touch the ascertainment of the sources of exported capital, or completely bypass this crucial question.

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[609] [Later renamed the C.J. Devine Institute of Finance, which was absorbed in what is today the Salomon Brothers Center for the Study of Financial Institutions at the Stern School of Business.]
[610] [Dokunin's announced article did not appear. Madden and Nadler co-authored three books between 1929 and 1937.]
[611] Dokukin 1929.
[612] [Again, this announced next article did not appear.]

Sartorius von Waltershausen confines himself to general discussion about the 'surplus' derived in the national economy and about the interest of the owners of these capitals in their placement abroad with the goal of obtaining increased income.

In the first and fourth chapters of his work, which, judging by the name ('Capital formation in agrarian and industrial countries', 'Why does domestic capital go overseas?') should give a theoretical illumination of the sources of capital export, we meet only a description of the concrete facts of economic progress of the most important countries of Europe, a naked statement of the circumstance that industrial countries give their capital less willingly, the better the situation of their own economy. Sartorius rejects, by [using the] example of the development of the United States, the indication of Marx in the third volume of *Capital* on the specific conditions of capitalist development in agriculture, missing the significance (for theoretical analysis of his problem) of the aspect of study contained in the remark of Marx.[613] He stays on the surface of economic phenomena when he comes to the final judgement, that 'the national-economic conjuncture, the phases of boom and decline of the economy, often occurring in different countries, but not coinciding in all of them in one term, lead to such a situation, that the excess of capital in one country corresponds to its lack in another'. Then the pursuit of the acquisition of higher income stimulates the flow of capital from one country to another.[614]

Harms,[615] emphasising the whole importance of the problem in the chapter 'Capital placement abroad and other international value transfers', recalls the significance of the works of Goschen (1861) and Sartorius, but does not give his own analysis of the issue about the sources and moving forces of capital export; he dissolves scanty theoretical remarks into a sea of factual material about the historical evolution and size of foreign investment of European countries and the United States. In the five major groups, systematising all the most important [debt] claims [*Forderungen*: receivables] of modern world-economic exchange, Harms devotes a place also to capital export, wherewith he considers its role [to lie] in the plane of clarification of the progress of international economic connections as basis of the world economy. There is no special analysis of the problem of capital export in Harms. Edwards starts his work on foreign investment with the small theoretical section 'Principles of foreign investments', where he tries to set out a theory of foreign investment, as well as the driving forces of capital export. Beginning from the definition of capital itself,

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[613] Sartorius von Waltershausen 1907, p. 24. Marx 1981, p. 751. [The assumption of a split into landowners and rent-paying capitalist farmers.]
[614] Sartorius von Waltershausen 1907, p. 53.
[615] Harms 1920 [1912], p. 219.

typical for all bourgeois economists, as 'sums of commodities or securities, applied to create more wealth', Edwards invariably glides on the surface of economic phenomena, reducing the whole question to the individual interest of the 'business man' and to such a in his view immutable factor, as the obtainment of greater yield from foreign investments in the form of interest.[616]

It presents a certain interest to trace Kautsky's views in the domain of the problem interesting us. In his work *National State, Imperialist State and Confederation*, Kautsky argues as follows: from its very beginning, capitalist production has been directed not only to satisfaction of the domestic demand of the state but also to export. If earlier the commodities intended for exportation served only the consumption of foreign countries, in the imperialist period, 'it became necessary to export means of production that serve as capital in foreign countries, for instance, material for the construction and operation of railways, by means of which agrarian territories were opened up, machines for the operation of mines, of plantations, and finally even of industries, etc.'.[617]

First of all, a comment on the transfer by Kautsky of various materials and equipment that can serve abroad as capital. Spektator correctly notes that precisely the railway investments were especially typical for the pre-imperialist period.[618] Hobson, noting the unrelenting significance for capital export of railway construction, indicates, that enterprises for development of mines and plantations figured prominently exactly during earlier periods of foreign investment, [while] the past few years see the characteristic 'tendency to invest [capital] in manufacturing and industrial concerns'.[619]

Kautsky does not notice the fact that the development of capital export inevitably entails a slowdown for the exporting country of industrial growth and a tendency towards decay and parasitism. On this question Lenin expressed himself very sharply, saying, that 'export of capital is parasitism raised to a high pitch'.[620]

Kautsky's conception diligently obscures the socio-economic contradictions of the era of monopoly capitalism, reflected in such a form of expansion, as capital export.

Kautsky specifically emphasises the fact that capitalist production is designed not only to satisfy domestic demand, but also to export, in order to [be able to] explain capital export, as a tendency that is 'certainly irresistible' and that 'will exist as long as the capitalist economy exists. Its containment would only be possible by curtailing and crippling economic

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[616] [Edwards 1926, pp. 3–7. Dokukin's paraphrase.]
[617] Kautsky 2011, p. 813.
[618] Spektator 1928b, p. 20.
[619] Hobson 1914, p. 159. [Again, this is *Charles* Hobson.]
[620] Lenin 1916, p. 106. [Literally: 'parasitism squared'.]

development'.[621] So according to Kautsky capital export is caused by the need for complete use of the productive forces of the exporting country and as a tendency is irresistible. It is no accident that later Kautsky denies the existence of the imperialist expansion 'policy of colonial conquest', believing, that capital export can proceed without fierce struggle for the spheres of its application. This is how the 'Marxist' Kautsky solves the problem. He tries to deny the fact that capital export, as a typical phenomenon of imperialism, arising from changes of the economic base of capitalism, is inextricably linked with the struggle for economic territory, with capitalist expansion, which in conditions of an antagonistic mode of production is its inevitable consequence. Lenin directly points this out: 'The interests pursued in exporting capital also give an impetus to the conquest of colonies, for in the colonial market it is easier to employ monopoly methods (and sometimes they are the only methods that can be employed) to eliminate competition, to ensure supplies, to secure the necessary "connections", etc.'.[622] Hilferding finds that 'the export of capital [...] encourages an imperialist policy'.[623]

Hobson in his *The Export of Capital* posed the special question of the 'reasons for foreign investment', for which he not only did not give a satisfactory solution, but essentially skirted it in [his discussion of] the problem of capital export. He does not even try to disclose the economic reasons, causing at a determined stage of capitalism the systematic flow of capital abroad. Restricting himself to just mentioning, like Sartorius, the opportunities to obtain a higher rate of income from foreign investments than from the use of capital within the country, Hobson further elaborates a theory of the market and the importance of foreign investment for small savers, a bit too superficial and naive, to claim [to be] an economic analysis of the causes of capital export. And here he appeals to the all-powerful action of the increase of the interest rate within a country due to capital outflows, as a factor of accumulation, which is an argument that is discussed by us below.

'[E]conomic considerations, – Hobson writes, – play, on the whole, a predominant part in determining the direction of investment'.[624] Further he sets out a situation, by virtue of which the rise and fall of prices affects accumulation and consequently the supply of capital. 'Prices and the rate of interest to some extent move together, and in business concerns it appears that when prices are rising profits are high, and a larger proportion of the net earnings is carried to reserve than when prices and profits are low'.[625] In other words, the

[621] Kautsky 2011, p. 813.
[622] Lenin 1917, p. 262.
[623] Hilferding 1981, p. 322.
[624] Hobson 1914, p. 24.
[625] Hobson 1914, pp. 39–40.

supply of capital increases, which will entail a decrease in the interest rate. Therefore, higher prices are unprofitable, according to Hobson, for persons who lent money in the past for a certain percentage, as well as having savings. A capital flow abroad will help increase 'the capacity of individuals and businesses to save', since the by capital export caused 'rise in the rate of interest stimulates [...] stronger inducement to save'.[626] In short, here we have a rejuvenated edition of the well-known harmony theory of the vulgariser [Jean-Baptiste] Say in application of it to the capital market. An increase in demand for capital also increases its supply. It is not difficult to understand why Hobson in general denies the existence of a 'surplus' capital in modern advanced capitalist countries.
Next comes this characterisation of the capitalist-exporters of capital:

> The great bulk of investors would admit that they were influenced in their choice almost exclusively by "business" considerations, which practically means that they try to obtain the largest possible material advantage for themselves, their family, and in a lesser degree, their friends and acquaintances. The evils connected with particular employments of capital in distant lands exercise but little deterrent power upon the course of investment: the absentee investor is but little troubled in his conscience by such vague rumours as force themselves upon his attention, and it is only in flagrant cases that the abuses become notorious. Nor does the *sentimental consideration of the locality of an investment* operate – directly, at any rate – in any large measure.[627]

Anyway, we do not see a theoretical analysis of the reasons for capital export in Hobson.
Such an analysis can be given only on the basis of a clear representation on the accumulation of social capital, on the basis of an account of the prerequisites and conditions of the process of expanded reproduction in capitalist economy. The objective laws governing the emergence and development of capital export can be derived from the domestic conditions of development of the capitalist economy as a historically conditioned form of social production, as a phenomenon, dialectically developing.
Above we pointed out, that, in analysing the relationship between capital accumulation and foreign investment, Hobson comes to the conclusion that it is possible to establish a general dependency between both of these processes. In his opinion 'home investment has, on the

[626] Hobson 1914, p. 40.
[627] Hobson 1914, p. 24.

whole, been active in years when foreign investment has been active, though activity of home investment during the middle 'seventies coincided with depression of foreign investment'.[628] This conclusion is very weakly substantiated. We believe that more correct in this question is Sartorius, who holds that in the various phases of the industrial cycle the relationship between these processes [of capital accumulation and foreign investment] carries an inverse character: in a phase of rising conjuncture there is an increased tendency of domestic investment, in a phase of depression the reverse tendency [that is, less domestic, more foreign investment].

When in the country itself the process occurs of intensive development of fixed capital and development of industry, then capital export is certainly weakened, when this process ends, then capital export is significantly amplified.

To the extent that part of fixed capital which annually is realised in the form of commodities, exceeds the part which again is capitalised in the form of fixed capital, [to that extent] supply exceeds demand in the market, and as a result of this there will occur either export of commodities or export of capital. And conversely, the intensity of export will be weakened if the [to be] capitalised part of surplus value exceeds that part of the operating fixed capital which is annually realised in the form of commodities, that is, market demand will be greater than supply.

'The formation of new capital, – writes Dombois, – however fast it proceeds, does not keep up with the ongoing large investments of capital: hence there is a constant lack of free application-seeking capital, a lack that only temporarily, in the period of industrial stagnation, gives way to excess of capital'.[629]

Professor Mombert gives interesting data for the clarification of the dependency between capital market and conjuncture. Believing that demand, presented for the capital market, is expressed with greatest clarity in the statistics of share issuance, Mombert takes as a basis the issuance statistics of the newspaper *Frankfurter Zeitung*, as the most developed and accurate for Germany for the period 1900–13.[630]

These issuance statistics clearly show that with improvement of conjuncture the demand, presented for the capital market, grows, while with its deterioration it falls strongly. This affects not only the total sum of emissions, but even more markedly the emissions of industrial shares, in which is expressed the demand for capital of industry proper. Herewith the greatest reduction of demand for capital occurs not always in the same year when a turn

[628] Hobson 1914, p. 221.
[629] Dombois 1911, p. 43.
[630] Mombert 1925, p. 95.

of conjuncture occurred, but often in the next year and in the depression period, following the turn. Such years were for example 1901–03, 1907–10 and 1913.

Therefore, the remark of Sartorius is fully justified that 'in general, industrial countries give their capital the less willingly, the better the situation of their own economy. During a crisis they are not not at all able to export capital, while in time of depression they are more inclined to export capital'.[631]

Nevertheless Hobson's attempt to compare the relative pace of movement of domestic and foreign investment is of great interest. The general conditions, affecting the distribution of capital between internal and external markets, are very vaguely formulated by him. The figures, on which he relies, published in *The Economist*, characterise the growth of profits and savings of industrial companies by annual records from 1907 to 1913 and have a very conditional significance in the resolution of the posed problem.

The difficulty lies in a series of questions requiring for their solution reliance on analysis of expanded capitalist reproduction, like for example the question about the reasons of holding a significant part of savings inside the country, despite the fact that capital is attracted by a higher rate of profit abroad, or the question about the sources of excess capital in general, seeking application abroad.

It must be recognised that also Marxist theory in this area is almost not developed. Bukharin and Spektator take only a very general approach to the problem of the sources of capital export.

They use the analysis of the process of expanded reproduction as a starting point for solving the problem.[632] In view of the importance of this theoretical starting position, for subsequent conclusions and in the interests of a more distinct exposition of the theory of reproduction, we cite the exposition of the process of expanded reproduction by Marx himself.

> For the sake of simplicity, when we speak of the reproduction of constant capital we shall in the first place assume that the productivity of labour, and consequently the mode of production [*Produktionsweise*], remain the same. At a given level of production, the constant capital which has to be replaced is a definite quantity *in natura*. If productivity remains the same, then the value of this quantity also remains constant. [...] A portion of the surplus value must be transformed into capital, instead of being consumed as revenue. It must be converted partly into constant and partly

[631] Sartorius von Waltershausen [no exact reference].
[632] [It is not clear what passage in Bukharin's writings this refers to.]

> into variable capital. And the proportion in which it is divided into these two different parts of capital, depends on the given organic composition of the capital, since the mode of production remains unaltered and also the proportional value of both parts. The higher the development of production, the greater will be that part of surplus value which is transformed into constant capital, compared with that part of the surplus value which is transformed into variable capital.[633]

Insofar as capitalist reproduction levels up, that is, capital not only renews but also accumulates, a part of the surplus value goes to the increase of further production.

The division of capitalist production into two large departments (I and II) is one of the basic premises of the theory of reproduction of Marx. The question is why such a division of products according to their natural form is necessary now in the analysis of reproduction of social capital, whereas the analysis of production and reproduction of individual capital did without such a division, leaving completely aside the question of the natural form of the product. In the analysis of the production of individual capital only the question of the value of individual elements of production and of the result of production was subject to consideration, [whereas] in the analysis of reproduction of social capital we have 'not only a replacement of values, but a replacement of materials' (*Stoffersatz*),[634] and therefore it is absolutely necessary to distinguish between products, which play a completely dissimilar role in the process of social economy. Once this premise is taken into account and in addition to it, that the whole product of a capitalist country, like a single product, consists of three parts ($c + v + s$), then the question of the reproduction of social capital does not pose any difficulties.

For the reproduction process to proceed smoothly, it is necessary that the increased capital of department II ($c + 4/5\ s1$) is equated [equal] to variable capital plus 1/5 capitalised surplus value of department I. Thus the possibility of unhindered development of the entire process of expanded reproduction depends on the equation:

$(v + 1/5\ s1) + s2 = c + 4/5\ s1$.[635]

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[633] Marx 1989b, pp. 106, 109.

[634] Marx 1978, p. 470.

[635] [This proportion of 4/5 and 1/5 in which the surplus value of department I (designated as '*s*1') is reinvested among respectively department I (businesses dedicated to creating means of production) and department II (businesses dedicated to creating articles of consumption), is found in Marx 1989b, p. 110 (also in Marx 1978, pp. 583, 586). A bit confusingly for the reader, department I is represented by the right side of the above equation (and department II by the left side). The '4/5 *s*1' in the above equation is the additional investment in department I (means of production), which adjoins the (previously existing) size of constant capital of department I. The '*s*2' is the surplus value originally from department II (articles of consumption), which in the above equation stays assigned to department II. The '*v*' is the (previously existing) size of variable capital of

If department I will manufacture more means of production than there is need for in II, then some of them will remain unrealised, just like also the excess of consumer goods, if they are created in the second year.[636] Disturbance of the equilibrium of capitalist reproduction is a regular and inherent phenomenon in capitalism, because the striving of capitalism lies in the accumulation of an ever greater part of surplus value. The consequence of such disturbance is the redistribution of social capital in both departments.

Marx in his analysis of expanded reproduction abstracts from credit, foreign trade, considering that the entire process occurs inside capitalist society. He says that in the examination of the question about production one does not at all need to take account of the foreign market, foreign trade, because '[b]ringing foreign trade into an analysis of the value of the product annually reproduced can [...] only confuse things, without supplying any new factor either to the problem or to its solution'.[637]

The same about credit: 'Credit, which does not concern us further here, is the means whereby accumulated capital is not just used in that sphere in which it is created, but wherever it has the best chance of being turned to good account'.[638]

Although in reality there is a flow of capital from one sphere to another, nevertheless Marx does not touch upon this problem in the analysis of the course of capital accumulation. Marx indicates that he abstracts from the case when more capital is accumulated than can be consumed in production. As a consequence, this capital lies with bankers in monetary form or goes abroad.

Assuming general accumulation, that is that in all branches of production capital accumulates, Marx poses the question of what the conditions are for this general accumulation and wherein it finds its resolution.

> The conditions for the accumulation of capital, – writes Marx, – are thus the very same as those for its original production or for reproduction in general. These conditions, however, were: that labour was bought with one part of the money, and with the other, commodities (raw material, machinery, etc.) which could be consumed industrially by this labour. [...] This was the condition of the market, of the production and the reproduction of capital.[639]

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department II.]

[636] [That is, second 'cycle' of reproduction ('year' is not meant as a real year).]

[637] Marx 1978, p. 546.

[638] Marx 1989b, p. 114.

[639] Marx 1989b, p. 115.

And in another place: 'It seems therefore, that for accumulation to take place, continuous *surplus production* in all spheres is necessary'.[640]

The theory of reproduction according to the intention of Marx should serve to explain the form of the movement of capitalist social production.

Marx built his analysis of capitalism on a strict distinction of the natural-technical elements of social production from those specific forms of their organisation in which they act in capitalist society. And the task of theoretical research of capitalism consists precisely of demarcating in the considered economic phenomena the natural-technical content from the capitalist form (*Formbestimmtheit* in Marx's expression), that is of revealing on the one hand, the historical conditionality of the latter and its social content, and on the other, [identifying] the dialectically complex system of interactions of capitalistic form and material content.

Marx's theory of reproduction, studying the form of the movement of capitalist social reproduction, and therefore also accumulation, abstracts from the concrete conditions of the capitalist market, that is, it disregards the processes of formation and evolution of the capitalist market, as well as the significance of these processes for the course of capital development.

The theory of reproduction of Marx proceeds from the absence of difficulty in the problem of realisation, in order to more clearly identify the possible difficulty on the side of social production. Marx proceeds from the conditions of 'pure capitalism', without complication of the analysis by calling in pre-capitalist formations, although the latter also were diffused throughout all parts of the capitalist organism. The question of non-capitalist markets arises only when the object of study becomes the real conditions of movement of the capitalist system of economy.

Conclusion: the theory of the reproduction of Marx, as an abstract theory about the form of movement of capitalist reproduction, *is impossible to directly draw upon* in the explanation of the concrete phenomena of the market, crises, capital export, imperialism, and so on.

Rosa Luxemburg, connecting this theory with her theory of imperialism, introduces an intermediate link, deriving at first from an analysis of Marx's schemes the impossibility of 'pure capitalism', in order then [with] the impossibility of pure capitalism to substantiate imperialism.

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[640] Marx 1989b, p. 117.

In her conception the theory of reproduction of Marx appears in the role of proof from the opposite: Marx's schemes serve as a proof of the possibility of 'pure capitalism', but they lead to unsolvable contradictions, meaning that 'pure capitalism' is impossible. Hilferding also does this when he derives a theory of crises from an analysis of Marx's reproduction schemes.

Of great importance as fundamental premise for clarification of the concrete reasons for overproduction is that profound idea, which Marx laid at the basis for the division of social reproduction into departments I and II, which radically reveals the specific features of capitalist reproduction. Theoretically fruitful is also another division, pointed out by Marx: the opposition of elements of fixed capital to elements of circulating capital.

In volume three of *Capital* Marx convexly and clearly articulates the main contradictions of the capitalist economy and the roots of periodic overproduction.

> The conditions [for] realization [are] restricted [...] by the proportionality between the different branches of production and by the society's power of consumption. [...] [T]he more productivity develops, the more it comes into conflict with the narrow basis on which the relations of consumption rest. [...] The barriers within which the maintenance and valorization of the capital-value has necessarily to move – and this in turn depends on the dispossession and impoverishment of the great mass of the producers – therefore come constantly into contradiction with the methods of production that capital must apply to its purpose and which set its course towards an unlimited expansion of production, to production as an end in itself, to an unrestricted development of the social productive powers of labour. [...] If the capitalist mode of production is therefore a historical means for developing the material powers of production and for creating a corresponding world market, it is at the same time the constant contradiction between this historical task and the social relations of production corresponding to it.[641]

The tendency of capitalist production to limitless expansion is confronted with the tendency of social consumption to relative reduction. That is why 'the ultimate reason for all real crises always remains the poverty and restricted consumption of the masses, in the face of the drive

[641] Marx 1981, pp. 352, 353, 358, 359.

of capitalist production to develop the productive forces as if only the absolute consumption capacity of society set a limit to them'.[642]

One of the great theoretical merits of Marx is the liberation of the problem of reproduction from the connection with the reproduction of pre-capitalist and non-capitalist formations: Marx builds his conception exclusively on the analysis of the contradictions of the capitalist form of production: commodity-money circulation, circulation of capital and the contradictions of capitalist exploitation. The inevitability and law-like pattern of crises is established, proceeding from an analysis of the interactions of social production with social consumption, [and it is] only on the theoretical basis of 'pure capital' [that] Marx deduces the law of universal capitalist reproduction. Foreign trade, as Marx rightly observes, has only a perturbing influence on the process of capitalist reproduction, without violating the foundations of its law-like cyclicity. Thereby is eliminated the theoretical aberration that carries the problem to the plane of foreign spheres which can serve as a basis of technical progress under capitalism.

After all what has been said about the problem of reproduction, how it is resolved in Marx, it is not difficult to understand the methodological insolvency of a direct application of Marx's scheme of capitalist reproduction to the clarification of the sources of capital export in conditions of modern economy. We have *in mind Spektator's attempt precisely in this direction to solve the problem of sources of capital export*.[643] Spektator takes the formula of the expanded reproduction

$$v + 1/5\ s + K = C1 + 4/5\ s1$$ [644]

and explains that

> $C1 + 4/5\ s1$ consists of articles for personal consumption; [and] sums of proceeds from sold products, [with these sums being] intended for the renewal and expansion of the constant capital of "agriculture". While $v + 1/5\ s + K$ represents the paid sums for

[642] Marx 1981, p. 615. [Dokukin next here accidentally once more repeats the same quote above from Marx 1981, p. 358.]
[643] Spektator 1928b, p. 11.
[644] [The letter *K* is from the German word *Kapital*, but likely can mean any value. In the earlier equation that place was occupied by *s*2. We gather there should have been a delta symbol before *K*, that is, it indicates the surplus value (of department II). The Russian print of the equation is also sloppy with regard to consistency of uppercase and lowercase letters (uppercase for constant capital, yet lowercase for surplus value), and marking the invested surplus value by its origin (the '1/5 *s*' on the left side should more precisely be '1/5 *s*1'). We do not fully correct these inconsistencies.]

> wages and articles of consumption for industrialists, which after the completion of the production period has the form of means of production (raw materials and machines) intended for "industry".[645] *C*1 consists of two parts: [first] the raw materials consumed during the production period, [that is] circulating capital without the wage sum, [and second] the depreciable [amortised] part of constant capital which is released every year. And the 4/5 *s*1 goes to the expansion of the [production] apparatus.[646]

In passing we point to the ill-contemplated and theoretically unjustified replacement by Spektator of that division of the reproduction of the whole social capital into departments I and II, introduced by Marx into his analysis, by a division of an entirely different order and meaning, – into *industry* and *agriculture*.[647] More details about the fallacy of such an assumption will be given below.

> If we designate, – writes Spektator, – that part of capital which goes to the renewal of circulating capital by *U*, and the part of capital going to the upgrade of the apparatus (introduction of new machines, construction of new buildings, and so on) by the letter *F*, then the equilibrium formula will take the following form:
> $U + F = U1 + F1$
>
> This equation can also be represented in the following form:
> 1) $U + U1$; 2) $F + F1$[648]

Further Spektator indicates that the first equation is possible under proportional production, that is, when there is an exchange without remnant between industry and agriculture. The second equation can only take place if the depreciated sum plus the additional part of capital is equal to the value of new machines, buildings, and so on.
If the old fixed capital releases a significantly lesser sum, that is [if] the 'annually depreciated part is lesser [than the] value of new equipment ... then the formula reads: $F > F1$. Vice versa, if it is greater than that sum [of value of new equipment], the formula will be expressed as

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[645] [Original had “agriculture” here again, which we believe is a mistake, and corrected it with “industry”.]
[646] [This passage was difficult to follow and we made some adjustments to it.]
[647] [Actually we suspect even the order in which Spektator replaced them is strange: it seems he replaced department I (means of production) by agriculture, and he replaced department II (articles of consumption) by industry. We have not accessed Spektator's text.]
[648] Spektator 1928b, p. 11.

follows: $F < F1$, that is there will be a surplus [of released value] over the costs for new equipment'.

According to Spektator normally developing agriculture presents a demand for capital to a greater extent, than it itself supplies. But the relation $F > F1$ changes with each passing day. Fixed capital in agriculture grows, and together with this the depreciation of its part increases. At the same time, the progress of technology can reduce the value of tools and machines applied in agriculture. This can create a situation, and especially under a relatively slow rate of expansion of fixed capital, that the influx of new capital from outside into agriculture will slow down, then completely cease (when $F = F1$) and finally turn into its opposite ($F < F1$). When amortised [that is, depreciated or released] capital exceeds new investments, there arises a surplus, which was formed as a result of the more rapid development of agricultural [output] production compared with the process of application of fixed capital and [this surplus in the form of agricultural output] goes either to the industry of the same country or abroad.

Proceeding from the point that industry develops normally faster than agriculture, as a result of which there occurs rapid accumulation of capital and the growth of its fixed part, Spektator emphasises that the developing industry at first draws capital from the agriculture of its country, and then in proportion of the accumulation of capital and of the slowing down of the pace of development, the releasing of capital grows, and the free 'surpluses' become so significant that they in their turn go abroad.

> So, – concludes Spektator, – capital export, if we abstract from accidental unevenness in the development of the national economy, is associated with a slower expansion of fixed capital in agriculture than the growth of its output. At the same time, agriculture can still have an excess of products, which it realises by presentment of credit to industry. The latter [namely industry] in its turn gives credit to other countries that do not straight away have sufficient funds to immediately pay for their machines, and so on.[649]

This is the conception of Spektator in its unfolded form. It appears highly controversial and, despite its internal contradiction, deserves careful analysis and criticism on the substance. First of all we consider it necessary to note that all the cited reflections show the methodological error of directly deriving the need for capital export from the schemes of

[649] Ibid.

Marx's analysis of expanded reproduction, like for example Spektator does. Such an approach to theoretical treatment of the problem leads Spektator to a series of errors:

1) To the neglect of the most important circumstance, that capital export is a specific category of the newest stage in the development of capitalism. In the pursuit of abstract-economic analysis of capital export Spektator passes by the determined historical form of capital – monopoly capital, giving this export a specific nature and paramount importance as an instrument of expansion, and does not at all explain the qualitative peculiarities inherent in capital export in the epoch of imperialism.

2) In the process of developing his analysis, as emphasised above, Spektator makes one wrong assumption both in a theoretical and methodological sense, namely he replaces the classification of Marx's analysis of social capital in departments I and II (I – production of means of production, II – production of consumer goods) by his own division into industry (I) and agriculture (II).[650] Such an assumption entails the inclusion of consumer objects into department I of social capital (for example the production of light industry which manufactures industrial products of mass consumption) and vice versa [the inclusion] of means of production into department II (branches, delivering agricultural and industrial raw materials). It is easy to understand that such a scheme is a significant deviation from the basic prerequisites and conditions of Marx's analysis of the process of expanded reproduction and can lead to conclusions that sharply diverge from the conception of Marx, which also turned out [to be the case] in essence with the theoretical excursion in this field of Spektator.

3) As a result of his analysis of the problem of the sources of capital export in terms of expanded reproduction, Spektator comes to the conclusion that capital export, 'if we abstract from accidental unevenness in the development of the national economy, is associated with the [fact of the] slower expansion of fixed capital in agriculture than the growth of its output'. *Instead of a precise reference toward surplus value generated in the process of capitalist production and accumulated by monopolistic associations, as the fundamental source of capital export, Spektator repeatedly emphasises the idea that agriculture is the main source, supplying capital for export.* In his work *Introduction to the Study of World Economy* in the section on the reasons for capital export, Spektator gives such a conception, according to which capital export is put in dependence on the requirements of the emerging

[650] [Again, we suspect the order in which Spektator replaced them is even stranger: he replaced department I (means of production) by agriculture, and he replaced department II (articles of consumption) by industry.]

industry in agrarian countries as a result of 'a presentation of more demand for capital, [than] is extracted from the [own] agriculture of the country'.[651]

Such a conception is incorrect and contradicts Marx-Lenin's, in which the active side are not the backward agrarian countries, but the advanced capitalist ones with monopoly domination, not to speak already of the fact that the need of backward agrarian countries for import of capital does not at all explain the sources for capital export. To search for this source in surplus value or in surplus product created by agriculture means to contemplate that the source of capital export lies outside the basis of the economy of capitalism.[652]

Therefore there is foundation to the reproach which is often made against Spektator: if you start from his conception, then it is entirely unclear why capital export is a specific category of monopoly capitalism, why precisely '[t]ypical of the latest stage of capitalism, when monopolies rule, is the export of capital'.[653]

Above we pointed out the impropriety of the deduction of the necessity of capital export directly from the schemes of Marx's analysis of expanded reproduction. In that unsurpassed analysis of the the dynamics of the capitalist production process we can see only the main tendency in the development of the two main social sectors of social production, consisting in the colossal growth of the production of means of production and the lag of social consumption. But there we find no such relation of the elements of social reproduction, such a disproportion in the distribution of social capital between the main sectors, that would have led to the continuous growth of the 'surpluses' of fixed capital, that is, means of production. Even if we admit theoretically the existence of such a 'surplus' of fixed capital under the condition of a more rapid production of means of production, then such an 'assumption' may also not lead to the necessity for capital export, but simply to the overflow of excess capital into other branches of the capitalist economy.

We can solve the problem of the sources of capital export in its concrete-economic form only by complicating Marx's analysis of expanded reproduction in conditions of 'pure capitalism' by such moments as credit, foreign trade, capitalist monopolies, the pursuit of a higher rate of profit, exploitation of non-capitalist and pre-capitalist formations.

But such a formulation of the problem will be the next more concrete level of analysis, which modifies merely the particular historical manifestation of capitalist expansion, but not of its social-economic essence, defined by Marx in his analysis of capital accumulation.

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[651] Spektator 1928a, p. 202.

[652] [This inference probably is based on the situation where the agriculture in agrarian countries is non-capitalist.]

[653] Lenin 1917, p. 240.

Hence the analysis of expanded reproduction, given by Marx in *Capital*, is the main and only correct prerequisite, from which to proceed when solving the problem about the sources of capital export, but by no means the concrete resolution of the problem itself. In this connection it suffices to emphasise two determinative moments.

1) The basis of industrial production of capitalist countries is the ever increasing production of means of production, which together with general technical progress is expressed in a colossal growth in the dimensions of production and mainly the fixed capital.

2) If you imagine a concrete exchange between department I and II in the modern capitalist economy, that is, an exchange between the production of means of production and the production of consumer objects in the socially-specific form in which it occurs, then in view of the huge dimension of *C*, relative overproduction of capital will be inevitable. Therefore, the redistribution of capital, the colossal growth in production and fixed capital calls forth one of the forms of capitalist expansion – capital export.

In Lenin we meet confirmation of precisely these moments.

> According, however, to the general law of capitalist production, constant capital grows faster than variable capital. Hence, constant capital in articles of consumption has to increase faster than variable capital and surplus-value in articles of consumption, while constant capital in means of production has to increase fastest of all, outstripping both the increase of variable capital (+ surplus-value) in means of production and the increase of constant capital in articles of consumption. The department of social production which produces means of production has, consequently, to grow faster than that producing articles of consumption.[654]

Further Lenin emphasises the second moment indicated above.

> This larger consumption of constant capital is nothing but a higher level of the development of the productive forces, one expressed in terms of exchange-value, because the rapidly developing "means of production" consist, in the main, of materials, machines, instruments, buildings and all sorts of other accessories for large-scale, especially machine, production. It is quite natural, therefore, that capitalist production, which develops the productive forces of society and creates large-scale production and machine industry, is also distinguished by a particular

[654] Lenin 1899, p. 54.

> expansion of that department of social wealth which consists of means of production.[655]

It is important to point out one more aspect of the question. With the development of capitalist production the size of fixed capital increases, in connection with which the differences of the individual branches increase to the degree of the fixed capital that is used in them. The bigger the size of fixed capital, the longer the time necessary for new equipment of enterprises, the more significant the difference in time-frames required by different industrial branches for the expansion and renewal of production. Hence arises the lag of supply behind demand, the increase of prices and the ever widely spreading pursuit of accumulation in such industrial branches.

On the one hand, the increase in the organic composition of capital is the main reason for the tendency of the rate of profit to fall, on the other hand, due to changes in the relations of competition, movements in the relation of supply and demand, the influence of fortunate competitors in the branches producing means of production enacts at the start a stronger price increase than occurs in other branches of economy. The profit not only does not decrease, but the change of organic composition at first is accompanied by an increase in prices and increase in profit, wherewith prices have a tendency to increase the greater, the higher the organic composition of capital. Capital rushes into spheres with increased profit, newly accumulated capital will wander into these spheres, and thus in the branches with the highest organic composition in comparison with branches of relative lower composition the tendency will manifest toward excessive application, toward overaccumulation of capital, seeking application abroad.

So, starting from Marx's theory of reproduction and those laws which determine the dynamics of the process of reproduction of social capital, we can state that the main source of capital export is surplus value, created in capitalist production, and not the surplus product of pre-capitalist formations cohabiting and diffused within the prevailing form of the given historical system of production.

Above we pointed to uneven development as the main internal contradiction of capitalism. The increasing disproportion in conditions of national reproduction of capital, that is reproduction based on the national market, is not resolved by the capitalist system, but transferred to the arena of the world economy. This way out of the national market temporarily postpones for capitalism the need to rectify the disproportion between industry

[655] Lenin 1899, p. 55.

and agriculture, on the one hand, and between individual branches of industry, on the other. The real capitalist process is not limited to the frame of the national market, is not closed exclusively in on itself in the sense of an independent compensation and expansion of elements of social production, on the contrary it is comprehensively linked with the relations of external exchange with the social and economic environment surrounding it, embracing the most various socio-production formations. Capital export and international commodity turnover implement the mutual distribution of determined parts of the social product created in different [national] capitalist systems, so that a regular law-like regrouping is provided [which] renews and continues the process of reproduction of capital.

In this plane of theoretical analysis capital export can be interpreted not only as an outlet for accumulated surplus value, but as an extended process of reproduction in the frame of the world market for a longer period of the circuit of capital.

In the second volume of *Capital* Marx with full clarity emphasises, that the assumption, allowed in simple reproduction, namely the equation I ($c + s$) = II s is incompatible with capitalist production, since accumulation of capital, that is real capitalist production would be impossible under this. The fact that capital accumulation occurs, excludes the equation of II s and I ($c + s$); under capitalist production l ($c + s$) cannot be equal to II s, and both in exchange cannot cover one another. If I s/x is that part of I s that is consumed as income by the capitalists of I, then I ($c + s/x$) can be equal, greater or lesser than II s; but I ($c + s/x$) must always be less than in II ($c + s$) and moreover, it is less by that part of I s, which the capitalist class in II must consume itself, under all conditions.

This schematic depiction gives a clear idea of the unavoidable overproduction of capital in department I, but it does not accurately denote the value of constant capital, insofar as it forms part of the value of commodity capital, in the production of which this constant capital takes part. The fixed part of newly accumulated capital enters the commodity capital only gradually and periodically, according to the nature of these fixed elements. Herewith Marx observes that the transformation of various component parts of the annual product, that is their circulation, which must cover both the reproduction of capital and its restoration in its various forms: constant, variable, fixed, circulating[,] money capital and commodity capital, does not at all imply mere purchase of commodities complemented by subsequent sales, or sales complemented by subsequent purchase, wherewith factually would only occur an exchange of one commodity for another, as this is assumed by political economy, namely the Free Trade school from the time of the Physiocrats and Adam Smith.[656] Fixed capital, once

[656] [Perhaps a reference to Say's Law.]

expenditure is made on it, does not during the entire time resume its functioning, but continues to act in the old form, while its value is gradually deposited in the form of money. As a factor, contributing to the emergence of excess capital, Marx pointed to the following peculiarity of the process of the circuit of capital.

> It is evident that both capital investment in the several branches of industry that department I consists of, and the various individual capital investments within each of these branches of industry, [depending on their age, that is on the duration and already expired functioning, – we completely leave aside their magnitude, technical conditions, market relations, and so on, –] are to be found at different stages in the process of their successive transformation of surplus-value into potential money capital. This holds whether this money capital is to serve for the expansion of the functioning capital or for the installation of new industrial businesses – the two forms of expansion of production.[657]

With expanded reproduction there takes place the production of virtual additional capital, which represents nothing else than the phenomenon of the process of production itself, that is, the production of elements of productive capital in a determined form. This production of additional virtual capital, as Marx showed, occurs on a big scale in a variety of points on the periphery of circulation. Additional money-capital is the result and the expression of the multi-sided production of additional productive capital, the very occurrence of which does not imply any additional money income from the side of capitalists for the reason that the source of it is the surplus labour of the workers of department I, expended directly on the production of means of production, on the creation of additional capital in department I.
The more productive capital, functioning in the country, the more developed the productive power of labour, and at the same time also the technical means for the rapid expansion of the production of means of production, the greater the mass of surplus value, – the greater both the additional productive capital in the hands of the capitalist of department I, as well as the virtual additional money capital. The latter is an excess, which cannot directly be involved in the process of production of capital, and in its unproductive form it moves parallel to the process of production, but lies outside of it. The pursuit after the utilisation of surplus value for the purpose of profit, accumulation in the form of potential money-capital, finds an outlet in the credit system and capital migration.

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[657] Marx 1978, p. 568.

This thought is expressed with sufficient clarity by Marx in volume two of *Capital*:

> The surplus product converted into virtual money capital becomes quantitatively greater, the greater the total sum of capital already functioning, from the functioning of which it emerged. This absolute increase in the virtual money capital annually reproduced, however, also makes its segmentation more easy to achieve, so that it can be invested more quickly in a particular business [...]. By segmentation of money capital we mean here that it is *completely separated* from its parent capital, in order to be invested as new money capital in an independent business. [...] In this way *money capital* maintains an enormous influence in *another form* on the course of the capitalist system of production and its prodigious development.[658]

Formulating the main contradiction of the capitalist system of production, Marx points out that inherent to the capitalist mode of production is the pursuit after the absolute development of the production forces independently of value and including in the latter surplus value, as well as independently of the social relations in which capitalist production takes place. The specific feature of the capitalist mode of production is the pursuit to increase as much as possible the existing capital value, the use of the existing capital value as a means for the further, maximally possible increase of this value.

The problem of the sources of surplus capital already at this stage of analysis gets sufficient theoretical clarity. Capitalist production constantly seeks to move out of the boundaries, determined social relations of the system itself, accelerates the accumulation of capital value through the formation of new capital and thereby violates the relations, in which the process of the production of capital takes place. 'The means – the unrestricted development of the forces of social production, – observes Marx, – comes into persistent conflict with the restricted end, the valorization of the existing capital'.[659]

The inevitable apparition of surplus capital is conditioned mainly by the fact that the real boundary of capitalist production is capital itself. Capital and the self-increase of its value are the starting and ending points and the goal of production; capitalist production is production for capital, and not for the society of producers. The limits, in which only also can occur the preservation and increase of capital value, based on the dispossession and impoverishment of the great mass of the producers, constantly come into conflict with the

[658] Marx 1978, p. 574.
[659] Marx 1981, pp. 358–9.

methods of production, a production directed to unlimited expansion of production, to the unconditional development of the social productive force of labour. On this basis Marx points out that '[i]f the capitalist mode of production is therefore a historical means for developing the material powers of production and for creating a *corresponding world market*, it is at the same time the constant contradiction between this historical task and the social relations of production corresponding to it'.[660]

What did Marx mean by surplus capital?

The characteristic of 'surplus capital' is linked by Marx with the analysis of the process of concentration of capital and the law of the tendency of the rate of profit to fall, when beyond certain limits large capital with a low rate of profit accumulates faster, than small capital with a high rate of profit. This increasing concentration, reaching a certain level, in turn leads to a fall in the rate of profit.[661]

Absolute overproduction of capital does not mean absolute overproduction in general. To this thought Marx comes back more than once, to show the limitation, relativity, historically transitory character of the capitalist system of production. Overproduction of capital is overproduction of the means of production only in so far as the latter functions as capital and presuppose a process of self-renewal of value. On the other hand, overproduction consists further also of the point that capital proves unable to exploit labour to that degree, with which the increasing mass of applied capital increases also the mass of profit. If the increased capital leads to the same or even a smaller mass of surplus value than before its increase, then there is an absolute overproduction of capital, that is the increased capital $K + \Delta K$ produces not more profit, than the capital K before its increase by ΔK.

The overproduction of capital is regarded by Marx as overproduction of means of labour and means of subsistence, that can function as capital, that is can be applied for exploitation of labour at the given degree of exploitation. Therefore there is no contradiction in the point that overproduction of capital is accompanied by more or less significant, relative overpopulation. The condition, accelerating accumulation of capital both by mass and by value, lowering the rate of profit, constantly creates also overpopulation of workers, which are not used by the surplus capital due to the low degree of exploitation of labour, in which they only also would be able to find application.

In volume three [of *Capital*] Marx also stressed the other side of the question of surplus capital: the aggravation of competition due to the fall of the rate of profit associated with the

[660] Marx 1981, p. 359.
[661] See Marx 1981, p. 359.

process of capital accumulation. The compensation for the falling rate of profit by the increase of the mass of profit only matters for the entire capitalist world and for large capitalists with high-technical equipped enterprises. New, independently functioning, additional capital does not operate under conditions which give the possibility of such a compensation: it still must win such conditions, and therefore the falling rate of profit calls forth competitive struggle between capitals, and not vice versa. Speaking of the relativity of capitalist overproduction, Marx pointed out that, that the entire capitalist mode of production is only a relative mode of production, whose boundaries are not absolute limits, but absolute for it on its basis. The limits of the capitalist mode of production are manifested:
1) in the fact that the development of the productive forces of labour calls into existence the law of the fall of the rate of profit, that turns at a certain point into an obstacle for the development of this very production.
2) in the fact that the expansion or reduction of production is determined not by the relation of production to social needs, but by the appropriation of this unpaid labour and the relation of this unpaid labour to materialised labour, that is by the relation of profit to applied capital, hence the height of the profit rate.
In analysis of the driving forces of capital export, we cannot eliminate the significance of such a factor as the law of the tendency of the rate of profit to fall. It is necessary and legitimate to involve this factor in the theoretical elucidation of the problem of the sources of capital export from the viewpoint of expanded reproduction. The error of Spektator is the neglect of this important moment in that part of his conception where he analyses the question of the sources of exploitable capitals.
Let us quote just one of Marx's numerous remarks on the aspect of the problem that interests us, leaving no reason for doubt:

> If the rate of profit falls, on the one hand we see exertions by capital, in that the individual capitalist drives down the individual value of his own particular commodities below their average social value, by using better methods, etc., and thus makes a surplus profit at the given market price; on the other hand we have swindling and general promotion of swindling, through desperate attempts in the way of new methods of production, new capital investments and new adventures, to secure some kind of extra profit, which will be independent of the general average and superior to it.

> The rate of profit, i.e. the relative growth in capital, is particularly important for all new off-shoots of capital that organize themselves independently. And if capital formation were to fall exclusively into the hands of a few existing big capitals, for whom the mass of profit outweighs the rate, the animating fire of production would be totally extinguished.[662]

In this way the export of capital is the result of its accumulation. By accumulation of capital we mean the accumulation of productive and commodity capital, that is the process of expanded reproduction, as well as the accumulation of money capital, given in loans, the accumulation of property claims on the surplus value (loan capital) produced in society.

The problem of sources of capital export requires first of all analysis of the accumulation of real, productive capital, that is the process of expanded reproduction of capital, accompanied by the freeing-up of capital in monetary form. The determination of the course of capital accumulation presents a lot of difficulties even in a concrete-economic context. The criteria of the assessment of national wealth, used by bourgeois researchers – increase of capital of joint-stock companies, holdings in credit and deposit institutions and so on – are not thorough enough. The composition of national wealth includes seemingly items [such as]: for example the value of land – capitalised land rent; thanks to system of mutual participation in joint-stock societies and holding companies one and the one same real material object appears several times (growth of fictitious capital).

Bourgeois economists, who treat the problem of capital export from the viewpoint of accumulation and placement of loan capital, do not observe the connection between the accumulation of loan capital and the accumulation of real capital. The main sources of accumulation of loan capital arise from those parts of the capitalist economy and in such moments, where and when due to the most varied circumstances value or capital freezes in the form of money, lies idle. The dynamic of the supply of loan capital although also connected with the dynamic of the accumulation of real capital, by which we understand productive and commodity capital, nevertheless does not completely coincide with it.

Stagnation of value or capital in monetary form is determined by the process of production and reproduction of capital, which is very clearly revealed in analysis of any source of loan capital both as capital and as income. In general it can be said that the increase of real capital must reveal a tendency to the increase of the mass of loan capital, [while] a decrease in real capital – to a reduction of loan capital. The development of capitalist economy is

[662] Marx 1981, pp. 367–8.

characterised by the increase in the accumulation of loan capital: as a general tendency of the capitalist economy it is necessary to observe the increase in the accumulation of money capitals or, otherwise, of the capitals of the money capitalists. The development of capitalism is the process of expansion on an ever larger scale of the reproduction of capital, becoming the ever greater accumulation of real capital, seeking application. At the same time the development of capitalism is characterised by an ever greater accumulation of loan capital, far outpacing the accumulation of real capital.

Relying on the above theoretical analysis of the problem, in the next article we will criticise the American theory of capital export (Madden, Nadler) and analyse the sources and main directions of the export expansion of the United States.[663]

[663] [Again, this announced next article did not appear, despite the fact that in the following issue of the same journal Dokukin had an article on US railways.]

Chapter Nine

Methodology of the Balance of Payments (1928)

Isaak Zvavich

The present article appeared in *Voprosy torgovli* [*Questions of Trade*], renamed in 1931 as *Sovetskaja torgovli*. This journal of the ministry of trade dealt more with practical issues, not necessarily from a Marxist perspective.

The noun 'balance' in phrases like 'balance of trade' (or payments) is an accounting term, meaning the remaining sum, saldo, difference, net or clearance (all these terms are synonyms of 'the balance') between the two sides (outwards and inwards) of a nation's account. By contrast, as a verb, 'balance' means 'adjustment', levelling or equating. So 'to balance the balance of trade' would mean reducing it to zero (or bringing it close to zero).

This article differs with the modern definition of 'balance of payments' in that for Zvavich this term (*platezhnogo*: payments) means merely a balance of '*executed* payments' (nowadays called 'current account'), and so for him does not include a balance of '*outstanding* payments' (nowadays called 'financial account', which is sometimes also called 'capital account' in a broad sense[664]). The latter he calls a balance of debts. So the title of his article for a modern reader should be understood as 'Methodology of the Current Account'. Nevertheless, in section four he dwells also on the 'financial account', so his article covers the whole balance of payments in the modern sense.

When, in section two, he speaks of transfer of capital or short-term loans as belonging in the balance of payments ('current account'), he means the *executed* payments on them during the course of the considered period, but he excludes the outstanding loans (not yet paid) in existence at a specific moment, which for him belong instead to the balance of (outstanding) debts. The current account consists (roughly) of two components: the balance of trade, and the balance of earnings on (or of executed) debt, nowadays called the balance of (or net) factory income (or 'primary income'). He accepts the idea (in section two) that these two balances (or net positions) always cancel each other out, so the 'current account' (balance of payments in Zvavich's peculiar sense) is always zero, which is an idea that Lazar Frej seems to challenge in

[664] It is possible that he includes 'capital account' in the narrow (more precise) sense (which is about non-financial assets, such as for example right of usage of land) in the balance of payments, but this is anyway a negligible amount.

our two concluding chapters. This belief of Zvavich is perhaps due to the assumption that 'payments' can be regarded as already executed when they are made by mere 'means of payments' (that is, commercial credit), like bills of exchange, and not only when (eventually) they are settled by 'means of purchase' ('means of circulation'), that is by real money such as gold, which in Frej's chapters is still given a nod (witness the section on distribution of gold reserves).[665] In section three Zvavich gives a model of a balance of (executed) payments (current account). In section four he gives a model of a balance of debts.

The term 'capital export' in this article and in the two concluding chapters to our volume by Frej, is used merely in the general sense, and not in the specific sense of foreign direct investment (like in Dokukin's essays).

Born in 1904 in Odessa, Zvavich entered diplomatic service in 1922. He formally joined the Party only in 1945. During 1924–27 he worked at the Soviet Trade Mission in Great Britain; in 1926 he graduated from the London School of Economics, where he became friends with Harold Laski (Zvavich's mention in 1949 of this fact led to his exile to Tashkent, where he died the next year).

A frequent reviewer in *Ekonomicheskoe obozrenie*. He began teaching in 1928 at various higher educational institutions in Moscow.[666] Editor, for example in 1930 a translation of *England, Europa und die Welt: eine geopolitisch-weltwirtschaftliche Studie* by Erich Obst, or in 1934 *Lancashire and the Far East* by Freda Utley. From 1932 to 1937 he was a senior research associate at the Institute of World Economy and World Politics. Zvavich reported on Laski's lecture ('The Crisis of Democracy in the West') during the latter's 1934 tour in Russia. Zvavich's studies dealt with British historiography (also reviewed Dobb's work), British politics, foreign trade and international relations (Zvavich 1948).

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[665] 'The difference between means of purchase [*Kaufmittel*] and means of payment becomes very conspicuous, and unpleasantly so, at times [*in den Epochen*] of commercial crises' (Marx 1987b, p. 374). Or perhaps Zvavich was just influenced by the book authored by Cleona Lewis (from the later-named Brookings Institute).

[666] There is more detail on his works for instance in a 2020 book on the history faculty of the MGU (*Kafedra novoj i novejshej istorii: ljudi i traditsii*).

In modern economic literature the question about the balance of payments, its theory and methodology, stands on the agenda [waiting to be resolved]. The growing significance of financial capital in the world economy of the epoch of imperialism increases the role that is played in international economic life by so-called 'invisible' items of import and export. Trade of commodities stops being the exclusive factor in the economic interrelation of individual countries. The latter's dimension and character depend almost always on the nature of the balance of payments of the country.

Despite the importance of the question of the balance of payments, one can observe considerable methodological confusion in this area.

Individual authors understand by the term 'balance of payments' completely different categories of economic phenomena. In our language the situation is further complicated by the fact that in Russian literature there exists the term *raschetnyj balans*, which some authors declare to be identical with the concept of 'balance of payments', while others qualify it as an entirely different economic category.

Since 1924 the League of Nations annually publishes information on the balance of payments of a number of countries. The last issue of the yearbook of the League of Nations includes data on the balance of payments of twenty-two countries.[667]

Some of these balances are based on detailed nomenclature, worked out by the Economic Committee of the League. The government of the United States for several years publishes information about the balance of payments in a developed form, based on information of American banks. The German government also specialises in this issue, and information on the balance of payments is published in the official organ of the German Statistical Office *Wirtschaft und Statistik*, with official explanations of the methodological character and conclusions, which has the sanction of the German government. In addition, in Germany there were several private attempts to construct a balance of payments, among which we note the study of Heichen.[668] The English Board of Trade in January each year, since 1920, publishes in the official weekly *Board of Trade Journal* information about the balance of payments of Great Britain for the previous year.[669] Since all these international or national organisations work on different systems, among economists and financiers of Europe and America arose a tendency in favour of a unification of the balance of payments systems. In April 1927 at the suggestion of the International Chamber of Commerce in Paris an international commission, with a composition of economists Charles Rist, Hermann Bücher,

[667]League of Nations 1928.
[668]Heichen 1926.
[669][The 'Board of Trade' was the Ministry of Trade.]

Keynes, Henry Alfred Ernest Chandler and Fernard Baudhuin,[670] gathered for the development of a nomenclature of the balance of payments. The commission performed its task, and its detailed nomenclature of the balance of payments at present is shared by a wide range of economists.[671]

In our literature the question of the balance of payments stands less well. If outside the USSR there is no uniform methodology of the balance of payments and there are diverse views on the character and significance of the balance of payments, then in any case the balance of payments in the capitalist countries is dealt with in practice. Meanwhile, we have not made a real attempt until very recently to establish the size of the balance of payments of the Soviet Union, despite the fact that in a planned economy the availability of verified information about the balance of payments represents a requirement. Moreover, in Russian literature there is not even a scientific study that would consider the history of the balance of payments of tsarist Russia over the quarter century 1892–1917, and researchers working in this field have to refer to the old calculations of Pokrovsky[672] or the American work of Pasvolsky and Moulton about *Russian Debts and Russian Reconstruction*, which can be called a good compilation but nothing more.[673] Meanwhile, the October Revolution, which opened the archives of the tsarist Ministry of Foreign Affairs and thus allowed the study of foreign policy of Russia in the nineteenth–twentieth century at a height inaccessible to scientists of bourgeois countries due to the secrecy of diplomacy, likewise opened access for researchers in the archives of the Ministry of Finance and the Credit Office. These archives should contain information that would allow the establishment of Russia's balance of payments for the said twenty-five years. This kind of historical research would be of great *practical* importance for the external trade and economic policy of the Union of SSR, and also of an exceptional theoretical significance for economic science.[674]

The absence in the USSR of practical works on the balance of payments contributes, no doubt, also to the methodological confusion that reigns with us. Before operating with the

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[670] [As well as Alberto Pirelli.]

[671]Keynes 1927a. [Peter Kenen in his *The International Economy* (Cambridge, 2000) gives two references that discuss some persistent challenges; on the decision in the 1970s of the U.S. government not to publish any measure of surplus or deficit, see *The Presentation of the U.S. Balance of Payments: A Symposium*, edited by Robert Stern (Essays in International Finance 123, Princeton, 1977); and on the problems of collecting and improving balance-of-payments statistics, see *Behind the Numbers: U.S. Trade in the World Economy* edited by Anne Kester (Washington, 1992).]

[672][Pokrovsky (1838–1915), statistician, from 1895 worked in the Ministry of Finance, editing its journal *Survey of Foreign Trade*. His 1901 book *On the Question of the Stability of the Active Balance of Russian Foreign Trade* was praised as 'wonderful' by Miklaschevskij 1904, p. 449.]

[673] Pasvolsky and Moulton 1924. [See Dashkovsky 1924b for a review.]

[674][On the balance of payments in tsarist Russia see for example Engeev 1928 and 1929b.]

concept of 'balance of payments', it is necessary to make clear what should be understood by this term, what economic phenomenon is covered by this concept.

The present article is devoted to the definition of the concept of the balance of payments. We will try herewith to take into account the experience that has accumulated in recent years in the practice of the compositions of the balance of payments of capitalist states.

Dvolajtskij in the article 'Balance of Payments' in the *Great Soviet Encyclopedia* defines the balance of payments as 'the ratio between the sum of payments due to a country from other countries, and the sum of payments, that this country has to make outside the borders of its territory in the course of a determined period (usually a year)'.[675] Herewith Dvolajtskij does not distinguish the concept of 'balance of payments' from the concept of '*raschetnyj balans*'. Meanwhile this kind of distinction must be emphasised.[676]

One should not mix up: 1) the ratio between the sum of payments received by a country from other countries and the sum of payments, which this country has made[677] outside the borders of its territory in the *course* of a determined period – usually a year, and 2) the ratio between the sum of *debts* of one country in relation to other countries and the sum of debts of other countries in relation to the given country on a determined date. The first of the above-mentioned concepts is what is usually called the 'balance of payments'; the second should be called the 'balance of debts' [*zadolzhennosti*], since the term '*raschetnyj balans*', sometimes applied in Russian literature to the second of these concepts,[678] is not sufficiently different from the term 'balance of payments'. Both terms, unlike 'balance of debts', are translations of the German *Zahlungsbilanz*; besides, 'balance of debts' has the term *Verschuldungbilanz*. In French we have the following terms: *balances des paiments* for the balance of payments and *balances des comptes* for the balance of debts; in English: 1) *Balance of Payments* and 2) *International Balance of Assets and Liabilities*.[679] Finn-Enotaevsky calls the balance of

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[675]Dvolajtskij 1927, p. 464. [Zvavich (1928c) himself also wrote in the *Great Soviet Encyclopedia*, for example the entry on Great Britain's foreign trade. Sholom Dvolajtskij (1893–1937), important Marxist. See our translation of his 1922 article 'On one "contradiction" in the economic system of Karl Marx'.]

[676] [The use of term '*raschetnyj balans*' is not sufficient evidence to us that Dvolajtskij included the 'financial account' (or what Zvavich calls the 'balance of debts') into the 'current account'. It seems to us that Dvolajtskij understood 'balance of payments' as solely 'current account', just like Zvavich does.]

[677] [This is the difference with the formulation of Dvolajtskij, who instead put 'has to make' (outstanding debts). One distinguishes between payments (made), and outstanding payments (debts, arrears). Like we said, for Zvavich the balance of payments does not include the outstanding payments (not yet made). Perhaps Zvavich is right that Dvolajtskij could have chosen a more accurate formulation (than 'has to make'), but we still think Dvolajtskij meant 'current account', just like Zvavich, since he wrote 'in the course of a determined period' (and not at a given moment). And even if Zvavich's interpretation is correct, Dvolajtskij would then just have the modern definition of the balance of payments.]

[678]Compare the note of the editorial board of *Vestnik Finansov* to the article of Engeev in the December 1926 issue. [Title not found.]

[679]See Lewis 1927, p. 26 [this seems a printing error, it is more likely p. 96 or p. 126]. [The latter concept (what Zvavich calls 'balance of debts') is now usually called the 'financial account' (or capital account in a broad

payments the ratio of the upcoming urgent payments due to and from a given country, which is likewise entirely wrong; Finn-Enotaevsky operates with a distinct concept that has nothing to do either with the balance of payments, or with the balance of debts.[680]

We come closest to our formulation of the 'balance of payments' and 'balance of debts' in Engeev, who in his article 'Problems of the Balance of Payments' in the July 1927 issue of *Ekonomicheskoe Obozrenie* distinguishes the account of foreign economic payments and the account of foreign economic debts.[681]

2.

On the question about the composition and the saldo [or net or clearance] of the balance of payments the differences in economic literature are as significant as on the question of the concept of the balance of payments. To a certain extent the disagreement about the composition and the saldo of the balance of payments is explained by methodological differences on how to construct the balance; in most cases an incorrect understanding of the balance of payments contributes also to its incorrect composition by one or another author. The fundamental question in the compilation of the balance of payments is the question of accounting for the movement of capital that occurs over the covered period of time. Does the composition of the balance of payments consider such articles as the export of capital for a given period, amortisation of government debt by other countries and so on, loans opened for seasonal or special purchases of commodities and so forth. In international practice this question is resolved by individual bodies, studying the balance of payments, in different

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sense). The financial account is now regarded as a component of the balance of payments, but Zvavich apparently does not agree with that. For a review of Lewis's book, see Zvavich 1928a. Later in the present article (section four) Zvavich will say (again) that the balance of debts is calculated for a specific moment (at a certain day, although the calculating itself can be done long afterwards), and not for over the course of a determined period (like a quarter year). It seems to us that the modern definition of a balance of payments, which combines a figure calculated at a moment (financial account), with a figure calculated over a period of time (now called 'current account'), did not make much sense for Zvavich, so he preferred to exclude the balance of debts (outstanding payments) from the balance of payments.]

[680]See Finn-Enotaevsky 1924, pp. 88–9. [We have translated that article by Finn-Enotaevsky for a volume on money (Gaido, Rodman). It seems to us that Finn-Enotaevsky's concept of the balance of payments is in agreement with the modern definition and with Marx's, namely it includes the 'financial account', that is outstanding payments at a certain moment (not during a period). Finn intended to write on Marx's theory of international value (mentioned in his 'Contribution to the Critique of Theoretical Economy', 1929, which we translated).]

[681]See Engeev 1927a, pp. 148–9. [Other articles on the balance of payments by Engeev are 1927b, 1929a, 1929c. The latter is much more extensive than the present article by Zvavich (though it too does not engage with Marx). Tar. Kar. Engeev was probably brother of Vartui Karapetovna Engeeva (1888–1969), who studied at the Sorbonne and was wife of economist Leonid Jurovskij. Probably not a Marxist.]

ways. The English Board of Trade distinguishes in the balance of payments between government payments made overseas, and income on debt from overseas collected by the English government, without dependence on whether [or not] those government operations include the interest on debt or the amortisation of sums.[682] The English Board of Trade does not consider short-term loans in the balance of payments; the export of capital according to the data of the Midland Bank appears as an 'explanatory article', but not a constituent part of the balance, and in the explanation to the balance, annually composed by the Board of Trade, we meet numerous indications on transfer of capital, not entered in the balance of payments, but explaining the activeness or passiveness [*aktivnost' ili passivnost'*] of the balance, the size of its saldo.[683] From the other side, the government of the United States does include in the balance of payment the transfers [or transactions] of capital, and calls the saldo of the balance of payments: 'the remainder, representing the errors and omissions' (among the omissions in the first place stands the absent data on short-term loans). Finally, in the balance of payments of Germany we meet two groups of items of the balance of payments: 1) the balance of trade, services and interest (groups 1–6), and 2) the balance of transfer of capital [S*aldo der Kapitalbewegung*][684] (groups 7–10), wherewith the last in the group of the balance of transactions of capital – the tenth – bears the name 'indecomposable [non-dissectable] capital transactions' [*nicht aufgliederbare kapitalbewegung*], and represents the saldo of the German balance of payments in the American sense ['the remainder'].[685]

So, can the country's balance of payments have a saldo, or should the assets and liabilities of the balance of payments be equal, when there are no omissions and errors? We think that the last position is the only correct one. A saldo of the balance of payments does not exist insofar as we understand by the balance of payments, as was set out above, the ratio between the sum of payments received by a given country from other countries, and the sum of payments that this country has made outside the borders of its territory for a determined period (a year). This definition of the balance of payments covers both the balance of trade, services and interests, as well as the balance of capital transactions; for each of these balances there can be a passive and active saldo, which must balance each other out.

Let us explain the above consideration with an example. What is the active side on the English balance of payments in 1925? This active side is the difference between the export and the import of capital from Great Britain. The main difficulty for the economists who

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[682] [We could not verify what this exactly refers to.]
[683] Compare Pigou 1927, p. 27.
[684] Compare the incorrect interpretation of Engeev 1927, p. 149.
[685] *Wirtschaft und Statistik* 1927, p. 739 ['Die deutsche Zahlungsbilanz des 1. Halbjahrs 1927'].

studied the English balance of payments for the years 1924–27 was that data on actual export of capital from Great Britain (issuance of foreign and colonial securities and capital) significantly exceeded the active side of the 'balance of payments', constructed by the Board of Trade.[686] Most economists explained this excess of the import of capitals into Great Britain, by a reduction of English investments abroad and, finally, [by] an underestimation of certain items of the balance of trade, services and interest (to the latter explanation also the economists of the Board of Trade were inclined, twice revising the figure of interest from British capital invested abroad). However, the very pursuit of economists to find these 'omissions and errors' (using American terminology) or the 'indecomposable part of the balance of capital transactions' (using German terminology) shows, that one cannot talk about a saldo of the balance of payment in general. There are only saldos of individual items on the balance of payments.

In this regard it is interesting to quote from the work of Hahn on the balance of trade and the balance of payments.[687] In this quote, along with absolutely fantastic distortion of the very idea of the balance of payments, there hides, in Hahn's own terminology, also a 'kernel of truth'.

> [T]he expression "balance of payments", – writes Hahn, – for countries without metal currency, is meaningless and represents an anachronism. Under balance of payments since the time of the mercantilists, who, as is known, assigned decisive importance to the international movement of precious metals, one understands a calculation of the payments which a given country must make and receive; the purpose of this calculation is to establish what quantity of precious metals must be exported or imported to cover the saldo. Since at the present time (1921) the transfer of precious metals in general has no practical significance, and all payments, which must be performed, are compensated through whatever way, although in the final analysis only through the export of paper money, that is by making a loan, then in the modern balance of payments system in general there cannot be an active or passive saldo. And a balance, in which the saldo is always zero, obviously is worthless to build a judgement on the state of international payment turnover.[688]

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[686]The question about the English balance of payments was studied in a brilliant, although also highly contentious article of Keynes 1927b.

[687] [For a Marxist critique of Albert Hahn's credit-expansionism, see our translation of Zachary Atlas's 1931 article 'Credit romanticism in golden pincers'.]

[688]Hahn 1921, p. 598 [Zvavich quoted from a Russian translation].

We have seen above that a saldo [or net] of the balance of payments, in general, cannot arise; those payments which, in order to meet one's debts [or arrears] on payments due in the given year, are carried over to the following years, will be called not the saldo, but short-term or long-term loans provided to the given country and belong in the balance of capital transactions. The kernel of truth in Hahn's words is that the very thought about the balance of payments emerged under the influence of the ideas of the mercantilists, who attached great importance to the saldo of the balance of trade. Subsequent economic theory found that the saldo of the balance of trade is covered by a number of other articles, in conjunction with which the balance of trade constitutes the balance of payments.[689] Already from this it is evident that the idea of a saldo of the balance of payments is based on an insufficient study of the elements entering into the balance of payments.

The preceding presentation shows that for the purpose of economic study what is important is not any 'saldo of omissions and errors', but the whole complex of economic phenomena, covered by the term 'balance of payments'. In this regard the position which was given, based on another series of logical inferences, by Hermberg proves absolutely correct.[690] Hermberg protests against the widespread desire in the economic press to consider the saldo of the balance of payments as a kind of index of national economic well-being. He compares this desire with the attempt to learn about the purity of air through a thermometer.[691] The balance of payments is not an indicator of the financial or socio-economic well-being of the country, but an indicator of those changes that over a determined period (a year) occurred in the international economic relations of the given country and a source of judgement on the nature of these economic relations. In its turn, the balance of debts gives a picture of the international economic relations of the country on a determined date.

3.

[689] [The assumption of Zvavich is erroneous: 'The impression very generally given in economic literature is that the Mercantilists' "balance of trade" was a balance of commodity trade. An examination of the sources not only reveals that the Mercantilists were aware of the importance of "invisibles," but that these invisibles were considered by them in determining what they called the "balance of trade". [...] When Steuart, and subsequently the writers of the Bullion Controversy, spoke of a "balance of payments" as distinguished from a "balance of trade," they were using a new term but they were applying it to an old idea which the Mercantilists had designated as the "balance of trade"' (Fetter 1935, pp. 624, 626).]

[690] Hermberg 1927. [Paul Hemberg (1888–1969), early member of Harms's Institute for the World Economy, affinity with syndicalism and council communism, see p. 58 in *Das radikale Milieu: Kieler Novemberrevolution, Sozialwissenschaft und Linksradikalismus 1917–1922*, Detlef Siegfried, 2013.]

[691] Hermberg 1927, p. 1.

A nomenclature of the balance of payments was most developed by the international commission of economists, meeting in Paris in April 1927. This nomenclature is a revised questionnaire of the League of Nations, distributed by the League to the governments of the world in connection with the composition of a collection of balances of payments. The nomenclature of the commission was translated by N. Alekseeva in Russian language and placed in *Vestnik Finansov* No. 10 of 1927.

Each side of the balance of payments (the income side completely corresponds to the nomenclature of the outgo side)[692] is divided into 8 main parts [or items]:[693]

I. Import and export of goods.
II. Import and export of precious metals, coins and paper money.
III. Banking, transport and commercial services.
IV. Interest.
V. Other current income of private individuals.
VI. Government operations (current).
VII. Movement of capital.
VIII. Balancing items (short-term loans and so on).

In the above list of main items, the items I-IV embrace the balance of trade, services and interest, the items VII-VIII the balance of capital transactions, and items V and VI are of an intermediate character; they can be, however, under a broad interpretation of the term 'services', ranked in the first part. A division into the balance of trade, services, and interest on the one hand, and the balance of capital transactions on the other, was not carried out in the nomenclature of the commission. It should be borne in mind that the one group of items clarifies the other group of items, but does not complement it. Insofar, however, as the separation of both groups can be made by researchers with great ease, the nomenclature of the commission can be adopted by all organisations developing balances of trade and payments.

Let us note that the official statistics of customs office [commodity] turnover require amendments related to the incompleteness of customs data, explained by one or other cause (for example, lack of whole categories of commodities in the form of government purchases, as in England during the time of war, or incorrect declaration of importers, as in Germany,

[692]We follow the balance of payments terminology of 'income and outgo' side, proposed by Lewis (Lewis 1927, pp. 69–70).
[693][In Keynes 1927a.]

where the statistical office has established the minimum of errors in exports [to be at least] three percent of all exports, and so on). In particular, the USSR will have to do serious work to make the statistics of our customs statistics cohere with the data of our operational organisations. The accumulated experience in this field shows that the difference in the customs and operative data is so significant that here explanations must be sought not only in accounting methods.

It is interesting to compare the new nomenclature of the commission with the old nomenclature of the League of Nations and the nomenclature, developed by the above-cited author of the American work on 'international accounts' Lewis. A comparison reveals that the main innovation of the new scheme of the commission in comparison with the old scheme is the development of items showing the transactions of capital. This innovation should certainly be recognised as positive. At the same time the commission's assertion that every item of the income side of the balance corresponds to an item of the outgo [side] is subject to criticism. It seems to us desirable to consider in accordance with the old nomenclature of the League of Nations imports valued with CIF and exports valued FOB.[694] Insofar as this is so, most of the items constituting part III on the income side of the balance – 'banking, transport and commercial services', will not figure on the outgo side, since they are included already in the value of import CIF. On this basis Lewis subtracts import of commodities from export, and does not mention expenditures on transport of commodities on foreign ships.[695]

In the balance of payments of the USSR the allotment of a group VI – government operations – is entirely purposeless, since government operations would significantly predominate over private ones and span all the groups of payments. Therefore, in the balance of the USSR it would be easier to carry out a fundamental *principium divisionis* – current payments and transfer of capital. In payments on consolidated loans it would be, practically, difficult to distinguish the part of payments received in the form of interest on capital invested abroad, from the amortised part of these payments.

In private-economic conditions the retrieval of full information on the balance of payments of the country by this nomenclature meets numerous obstacles: the information is not concentrated in one place; persons and enterprises that can provide them, often by their own position and incomes sources are interested in their concealment. Cooperation between the

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[694]Lewis 1927, p. 115. ['Cost, Insurance and Freight' and 'Free on Board'. Meaning, respectively, that the 'value' of goods is recorded at the frontier of the importing country (inclusive of cost, insurance and freight), or at the border of the exporting country (without allowance for insurance, shipping charges, and so on, beyond that point). Wide price-fluctuations in the meantime are also a factor.]

[695]Lewis 1927, p. 94.

central bank and several major private banks is indispensable for the correct establishment of the size and nature of the balance of payments. Meanwhile, even in such a country as England, the cooperation of banks proved not achievable; in the United States with the presence of these banks we have nevertheless significant gaps in the balance. In conditions of a planned economy the establishment of the balance of payments does not encounter such obstacles.

4.

A balance of debts was developed by the American researcher Lewis in the book cited above. Lewis establishes the following items of the balance of debts[696] (on a determined date, for example 31 December 1927):

Investments:

1. Private investment in securities of foreign governments, states, and municipalities
2. Private investment in foreign corporation securities
3. Direct ownership in foreign enterprises (including real estate), and mortgages on foreign property
4. Holdings of foreign currency notes
5. Total deposits (time and demand) with foreigners
6. Bank loans and advances (including overdrafts) to foreigners
7. Short-term investments abroad (including all bills and short-term securities)
8. Commercial credits (on open account, promissory notes, etc.)
9. Government loans of X to foreign governments

Debts:

1. Foreign holdings of the national, state, and municipal securities of X
2. Foreign holdings of securities of X corporations

[696]Lewis 1927, p. 96. [The 'International Balance of Assets and Liabilities' or 'international debt and investment position' of sample country X. Again, this is what is now usually called the 'financial account'.]

3. Direct ownership by foreigners in the enterprises of X (including real estate), and foreign mortgages on domestic property of X
4. Total deposits (time and demand) of foreigners with the banks of X
5. Bank loans and advances (including overdrafts) due to foreigners
6. Foreigners' investments in short-term securities (including all bills and short-term Treasury securities) of X
7. Commercial debts (on open account, promissory notes, etc.)
8. Currency notes issued by X and held abroad
9. Government debts owed by X to foreign governments

The construction of the balance of debts is possible only on the basis of careful study of the economic and credit relations of this country with all other countries and with each country individually. We therefore believe, together with Lewis, that for this purpose a special census [or questionnaire] of the active side [assets] and passive side [liabilities] on the balance of debts is required.[697] For the composition of such a census it is necessary to engage the country's Trade and Consular Missions in other countries, as this also was usually done until now, for example, by the governments of France and the United States, when they undertook research of individual parts of the balance of debts.[698] By its very character and by the volume of information included in the census the elements, of which the balance of debts is composed, require a long-lasting time, and therefore such census could not be compiled often, for example, once every ten years. Subsequently amendments to the balance could be made on the basis of an annually computed balance of payments.

One can however say in advance, that a number of changes in the balance of debts cannot be taken into account in the annual balance of payments; these changes will only show [in] the census over a long period of time. We mean the denationalisation of foreign investment – a fact that has not yet received adequate coverage in scientific literature. Foreign capital investments, whose interest for some reason has ceased to be paid out to foreign owners and in the course of a number of years is invested in the same state where the capital was placed, in fact, cease to be foreign.[699] This kind of emigration (denationalisation) of capital, which takes place by virtue of the transfer of residence of the owner of capital (physical or legal entity) or by virtue of a governmental act (for example, the decree of the Soviet Government

[697]Lewis 1927, pp. 97–8.
[698]Compare also the balance of payments of England with the USSR for 1920–27, composed by the Soviet Trade Mission in England. *Inostran. Obzor Torgovli*, London 1927.
[699][Dokukin does not agree with this point.]

on the nationalisation of industry), can be fully taken into account only in a census of the items of the balance of debts.

A common topic for the balance of debts and balance of payments is the question about the accuracy of both calculations. It is clear that the calculation of both balances can only be approximate; the margin of error can be different for different balance items and for different states (under a planned economy the margins of errors are less significant, than under a capitalist economy). It would be desirable for the organisations which construct balances of payments and balances of debts, along with the rough estimate of the amount of income and expenses, the active and passive side for each item, to [also] estimate the error margins for the main items and for the total sum of the balance.

In this article we have not dealt with those specific problems of methodology that must arise in the balance of payments and the balance of debts of the Soviet Union. That topic needs special consideration.[700]

[700] Compare Engeev 1927c.

Chapter Ten

Theories of Adjustment of the Balance of Payments in the Period Before World War One (Industrial Capitalism and the Beginning Period of Imperialism) (1945)

Lazar Frej

The present item is chapter three of Frej's 1945 book *Fundamental Problems of International Settlements* (433 pages). In other chapters Frej had differentiated between *raschetnyj balans* (the particular Russian term) and 'balance of payments'. It is possible that sometimes in his book Frej, like Zvavich, understands by 'balance of payments' solely the current account.[701] Like already mentioned in our introduction to Zvavich's article, the current account is divided into the balance of trade, and the balance of debt (dividend) payments executed over a determined period. In Frej's texts (or of the authors he discusses) 'balance of payments' is sometimes used interchangeably with 'balance of trade' (or vice versa), but he does understand the difference.[702] When it is only about the balance of trade, the connection to our volume's subject (namely international trade) is most evident.

But as there are definitions (like the modern one) of the balance of payments which includes the 'financial account', also known as the 'capital account' in the broad sense (what Zvavich in our previous chapter called the balance of debts, which he excluded), vigilance from the reader is required. It is namely also possible that Frej disagrees with Zvavich, and includes the 'financial account' into the balance of payments, like the modern definition. Marx apparently includes the 'financial account' (outstanding payments) into the balance of payments (so not just the current account), so Marx follows the modern definition. Perhaps Marx further, though, includes executed debt payments into the 'balance of trade' (thus understanding 'balance of trade' as 'current account'). On the 'balance of payments', Marx wrote:

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[701] We did not have access to these other chapters. Chapter two of Frej's book was an historical essay. Chapter five was on the balance of payments under paper currencies. The title of its final eight chapter was, perhaps oddly, about 'modern problems of silver'.

[702] Ricardo also (once) pointed to the difference: 'We are here speaking of a *balance of trade* abstracted from a *balance of payment*s. A balance of trade may be favourable whilst a balance of payments is unfavourable. It is the balance of payments only which operates on the exchange' (quoted in Fetter 1935, p. 633). This is excerpted by Marx (see Marx 1986b, p. 195). He also excerpted Condy Raguet's 1839 *A Treatise on Currency and Banking* (p. 24): As to the 'axiom, that the price of bills of exchange is determined by the balance of trade. Strictly speaking, however, this is not always the case, for this balance is liable to be modified by what is called the balance of payments; and in truth this latter principle it is which regulates the daily rate of the exchanges. If all the merchandise exported and imported was to be immediately paid for at the time of its changing hands, the balance of trade and the balance of payments would be identical' (see Marx 1986b, p. 146).

> to be distinguished from the *balance of trade*; the balance of payments is only the *immediate* situation of the balance of trade, which has to be liquidated at once, or within a definite interval.[703]
>
> The balance of payments is distinct from the balance of trade in that it is that particular balance of trade which must be settled at a particular *date*.[704]
>
> The *balance of payments* is independent of the *balance of trade* to the extent that it does not depend solely [*allein*] on the level [amount] of reciprocal debt [*Forderungen*: claims] (leaving aside [those] loans to foreigners, commercial or political, which do not constitute a *counter-claim* [that is, claims which can immediately equal each other out by a 'set-off'] but merely a claim upon future interest and repayment [meaning, leaving aside the payments that have not yet been made]), but [the balance of payments depends] on the due date for payment of those debts [*sondern von den Terminen der échéance*].[705]

Frej apparently challenges the idea that Zvavich accepted, that the balance of payments is always zero (in harmony). The present chapter's first section (the longest), on the quantity theory, contains a summary of itself at its end. Section three, on Marx, contains a summary of itself at its end as well.

We recall that the noun 'balance' in phrases like 'balance of trade' (or payments) is an accounting term, meaning the remaining sum (saldo) or difference (net) between the two sides of an account. And that as a verb, 'balance' means 'adjustment', levelling or equating. The title of Frej's chapters could thus be read as: 'Theories of Balancing the Balance of Payments [...]'. So 'to balance the balance of trade' means reducing it to zero (or near zero).

Although it is not really yet about the mature imperialist phase, there is already some mention of the export (migration, transfer) of capital in this chapter (for example Mill, Cairnes).

The *cause* that a country might display (in terms of money) a greater export of commodities than import (or vice versa) over a determined period, apparently is not investigated in this chapter (yet the question for why a country *can* be a net exporter of capital has been investigated, namely in Dokukin's chapters). Presumably the cause

[703] Marx 2015, p. 582.
[704] Marx 2015, p. 634 (Marx 1981, p. 649).
[705] Marx 2015, p. 606.

lies in the unequal exchange of labour time during trade between a country and the rest of the world, that Dashkovsky discussed in chapter two.[706] So when a country has, for example, a positive balance of trade, that is when it exports more than it imports, and the money it acquires consists of gold, this gold balance represents the amount of labour time which it 'won' or 'exploited' from the rest of the world, without violating the law of value. As Frej will remark, Ricardo and his school did not believe that trade itself could cause a country's balance of trade to be anything other than zero, because they believed that imports must equal exports.[707]

Born in 1890, Lazar Isaevich Frejdkov (later shortened to Frej) joined the RSDLP in 1906, participating in illegal party work in Voronezh until 1908 and in St. Petersburg. After 1910 there is a hiatus in his party activity; he graduates at the Economic Department of the St. Petersburg Polytechnic Institute in 1911; works for a newspaper and in the bank service. A soldier during the war, in 1917 he becomes chairman of the Council of Workers' and Soldiers' Delegates in Kozlov and a delegate with a deciding vote at the all-Russia Conference of the Menshevik RSDLP (May 1917) in Petrograd, where he belonged to the Internationalist faction.[708] He probably did not become a member of the Communist Party. From 1921 professor at the Kharkov Institute of National Economy. In the 1920s he contributed to the London *Inostrannoe torgovoe obozrenie* (*Russian Review of Foreign Trade and Markets*).[709] His first book in 1924 was on the currency reforms in Germany and Russia.[710] From 1931–74 he was professor at the Institute of Foreign Trade and at the Academy of Foreign Trade in Moscow.

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[706] But Dashkovsky there also wrote that balances of trade or payments are not able to portray when there is a violation of the law of value, such as when imports to poor countries are over-priced and their exports (to rich countries) under-priced (see passage with our footnote 310).

[707] Frej refers to the position of Jean-Baptiste Say, but compare our footnote on Say in chapter two. Ricardo believed the cause of a country's (non-zero) balance of trade must lie in an improper quantity of money in a country. Ricardo believed that the quantity of money (gold) in a country determines the value of money (and so he treated gold as if it were a 'paper' currency, as if gold can be over- or undervalued). Some critics of the modern floating exchange-rates (Judy Shelton) likewise assume that it is this factor which is the (or a) cause of trade 'imbalances', given that the improper exchange-rate interventions by central banks (or effects of their policy) act like tariffs (that prevent normal free trade).

[708] Information from Galili 1994, p. 658.

[709] Also published in London was his brochure 'The International Money Market in 1925'.

[710] In Kharkov in 1918 he had published a brochure 'The Financial Questions of Consumer Cooperatives'. Other books to his name include; *Financing of Foreign Trade* (1935, second edition 1938), *Currency Restrictions and Clearing* (1940), *International Settlements and Foreign-trade Financing of Foreign Countries* (three volumes, 1944), *Questions of Foreign-trade Policy of Foreign States* (1946), *International Accounts and Financing of Foreign-trade of Capitalist Countries* (1954, 1960), *Credit and Foreign-exchange Policies of Capitalist Countries* (1962), *Problems of International Trade of Capitalist Countries* (editor, 1963), *Currency and financial calculations of capitalist countries* (1969).

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1. The quantity theory

In the literature the question about the adjustment mechanism of the balance of payments was first raised in the debate between Thornton and Ricardo. Thornton in his work, appearing in 1802, eight years before the publication of the first work of Ricardo, analyses the influence of crop failure on the balance of payments.

> At the time of a very unfavourable balance (produced, for example, through a failure of the harvest), a country has occasion for large supplies of corn from abroad: but either it has not the means of supplying at the instant a sufficient quantity of goods in return, or, which is much the more probable case, [...] the goods which the country having the unfavourable balance is able to furnish as means of cancelling its debt, are not in such demand abroad as to afford the prospect of a tempting or even of a tolerable price [...] The country, therefore, which has the favourable balance [...] prefers gold as part, at least, of the payment; for gold can always be turned to a more beneficial use than a very great overplus of any other commodity. In order, then, to induce the country having the favourable balance to take all its payment in goods, and no part of it in gold, it would be requisite [...] to render them excessively cheap. [...] For this reason, it may be the true policy and duty of the bank to permit, for a time, and to a certain extent, the continuance of that unfavourable exchange, which causes gold to leave the country [...][711] It may be laid down as a general truth, that the commercial exports and imports of a state [...] naturally proportion themselves in some degree to each other; and that the balance of trade, therefore [...] cannot

[711] [This is the policy of devaluation for promotion of commodity export. Thornton wrote during the Bank of England's suspension of gold delivery for notes (1797–1821). That commercial policy was behind the August 1971 closure of the US Treasury's gold window. The real objective was not a dollar devaluation against gold for itself, but only if this had the effect of devaluing the dollar against other countries' notes (on Kissinger's National Security Study Memorandum 7, see Paul Volcker's *Keeping At It*, 2018). Within the financial sector only a minority faction supported this step, for instance Walter Wriston, head of First National City Bank of New York, which by the way was one of the rare US companies (after Executive Order 10905 in January 1961 prohibiting US ownership of gold also abroad) licensed to deal in gold abroad (and so could speculate against the dollar).]

> continue for a very long time to be either highly favourable or highly unfavourable to a country.[712]

Thornton believes that the unfavourable balance of trade leads to an ebb of gold from the country. The outflow of gold causes lower commodity prices, which in turn reinforces exports and levels the balance of trade.
Ricardo criticises the views of Thornton:

> Mr Thornton has not explained to us, why any unwillingness should exist in the foreign country to receive our goods in exchange for their corn; and it would be necessary for him to show, that if such an unwillingness were to exist, we should agree to indulge it so far as to consent to part with our coin. If we consent to give coin in exchange for goods, it must be from choice, not necessity. We should not import more goods than we export, unless we had a redundancy of currency, which it therefore suits us to make a part of our exports.[713]

Ricardo's views on this issue may be boiled down to the following propositions: 1) '[W]hen circulation is in a normal state, the amount of money in each country is commensurate with its wealth and industry':[714] 'While the relative situation of countries continued unaltered, they might have abundant commerce with each other, but their exports and imports would on the whole be equal. [...]; so that the exports and imports of all countries would balance each other; bills of exchange would make the necessary payments, but no money would pass, because it would have the same value in all countries'.[715]
2) This equilibrium is 'upset because the amount of gold is augmented in one country as a result of the discovery of new gold mines in that country, or because the aggregate exchange value of the commodities in circulation in a particular country increases or decreases'.[716]
3) 'Gold and silver, whether in coin or in bullion, obeying the law which regulates all other commodities, would immediately become articles of exportation; they would leave the country where they were cheap, for those countries where they were dear, and would continue to do so [...] till [...] gold and silver [were] restored everywhere to one value'.[717]

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[712] Thornton 1802, pp. 131, 133, 116. [Henry Thornton, 1760–1815. This book by Thornton is excerpted in Marx 1983d.]
[713] Ricardo 1810, p. 12.
[714]Marx 1987b, p. 405.
[715]Ricardo 1810, p. 3.
[716]Marx 1987b, p. 406.
[717]Ricardo 1810, pp. 3–4.

Ricardo stresses that 'the temptation to export money in exchange for goods, or what is termed an unfavourable balance of trade, never arises but from a redundant currency'.[718]
The export of gold is the cause of the unfavourable balance of trade.
4) Ricardo objected to Thornton's position that a crop failure or provision of a loan causes exportation of gold. 'If, which is a much stronger case, we agreed to pay a subsidy to a foreign power, money would not be exported whilst there were any goods, which could more cheaply discharge the payment'.[719]
He points out that 'the precious metals, on account of their having been constituted, by the universal consent of society, the general medium of exchange, and instrument of commerce, will pay a debt of the largest amount at its nominal estimation, according to the quantity of bullion contained in the respective currencies of the countries in question'.[720]
Summing up this discussion, we see that the disagreement between Ricardo and Thornton consists of the point, that in Thornton's opinion the export of gold can be the result of an unfavourable balance of trade, while for Ricardo the export of gold can only be the consequence of an abundance of money and is the reason for the unfavourable balance of trade. 'Thus then specie will be sent abroad to discharge a debt only when it is superabundant; only when it is the cheapest exportable commodity'.[721]
For Ricardo the mechanism of adjustment of the balance of payments was very simple. 'Since [...] gold is imported or exported [...] only because its quantity has risen above its proper level or fallen below it, because it is rated above its metallic value or below it, and consequently commodity prices are too high or too low, every one of these movements acts as its own corrective, for, by augmenting or curtailing the amount of money in circulation, prices are reduced again to their correct level, which is determined [...] by the international level of *currencies*'.[722]
Marx sharply criticises the position of Ricardo, pointing out that he did not understand the role of precious metals as international means of payment.

> A few examples will show how arbitrarily actual phenomena are arranged by Ricardo to suit his abstract theory. He asserts, for instance, that in periods of crop failure,

[718]Ricardo 1810, p. 10.
[719]Ricardo 1810, p. 14. [A point of Thornton about a subsidy to a foreign ally (in England's war against France), which Marx excerpted (see Marx 1983d, p. 516), is that even if England delivers this subsidy in the form of commodities (and not money), then still thereby part of the demand for English commodities abroad is satisfied and thus demand for English exports is lessened.]
[720]Ricardo 1811 [fourth edition], p. 68.
[721]Ricardo 1810, p. 14.
[722]Marx 1987b, p. 407.

> which occurred frequently in England between 1800 and 1820, gold is exported, not because corn is needed and gold constitutes money, i.e. it is always an efficacious means of purchase and means of payment on the world market, but because the value of gold has fallen in relation to other commodities and hence the *currency* of the country suffering from crop failure is depreciated in relation to the other national *currencies*. [...]
>
> As opposed to this paradoxical explanation, statistics show that in the case of crop failures in England from 1793 up to the present, the existing amount of means of circulation was not excessive but on the contrary it was insufficient, and therefore more money than previously circulated and was bound to circulate.[723]

If for Ricardo the export of gold was the result of its abundance and therefore the export of it led to an appreciation of gold, a reduction in commodity prices and the cessation of further export of gold, then for Thornton there arose the question – how the export of gold, being the result of an unfavourable balance of trade or of payments, restores the equilibrium of the balance of payments.

As we pointed out, he [Ricardo] believed that the export of gold and its import exerted a corresponding influence on prices, which in its turn caused an increase of exports and a reduction of imports in the country exporting gold. These positions find a further development in John Stuart Mill.

Mill, proceeding from Ricardo's position that a difference in the relative value of labour is the basis for the international exchange of commodities, raises the question to what extent this position undergoes change due the participation of money in international exchange.

> [The] trade [of nations] is a mere exchange of exports for imports; and whether money is employed or not, things are only in their permanent state when the exports and imports exactly pay for each other. When this is the case, equal sums of money are due from each country to the other, the debts are settled by bills, and there is no balance to be paid in the precious metals. [...] The currency is accordingly contracted: prices fall, and among the rest, the prices of exportable articles; for which, accordingly, there arises, in foreign countries, a greater demand: while imported commodities have possibly risen in price, from the influx of money into foreign

[723]Marx 1987b, pp. 407–8.

> countries, and at all events have not participated in the general fall. [...] [In this way] the equilibrium of imports and exports will be restored.[724]

Mill does not limit himself to a consideration of the adjustment mechanism of export and import; he analyses the cases of tribute payments, debts, rent transfers to landlords abroad, interest to foreign creditors, and so on.

> Commerce being supposed to be in a state of equilibrium when the obligatory remittances begin, the first remittance is necessarily made in money. This lowers prices in the remitting country, and raises them in the receiving. The natural effect is that more commodities are exported than before, and fewer imported [...]. When the debt thus annually due to the tributary country becomes equal to the annual tribute or other regular payment due from it, no further transmission of money takes place; the equilibrium of exports and imports will no longer exist, but that of payments will.[725]

Mill points out that the country making payments to other countries, loses not only the sum paid, but has still further losses, since it is forced to exchange its products abroad on less favourable terms.
'T]he paying country will give a higher price for all that it buys from the receiving country, while the latter, besides receiving the tribute, obtains the exportable produce of the tributary country at a lower price'.[726]
Cairnes develops the propositions expressed by Mill. Although he refers to Ricardo in his work, in reality he adjoins Mill.
Cairnes poses the question – what would happen if English import would be equal to export in a condition where the financial relations of England to the rest of the world remained the same, that is what would the British colonies have to pay of dividends, to send significant amounts of interest to England.

> An extensive influx of gold from foreign countries to Great Britain would thus set in, and – so long as the state of international prices, and therefore of international demand, remained at the point which had produced the equality of imports and exports – would continue.

[724]Mill 1894 [1848], pp. 375, 377.
[725]Mill 1894, p. 380.
[726]Ibid.

> It is plain, however, that international prices and demand could not long remain steady under the circumstances supposed. The large and continued influx of gold into England would necessarily be attended by a rise of prices here, and a fall in foreign countries; and this would quickly lead to a change in the demand of England and of foreign countries for their respective products. [...] But the question arises at what point would the process terminate, and trade find its equilibrium? [...] The answer may be formulated thus: The state of international demand which results in commercial equilibrium is realized when the reciprocal demand of trading countries produces such a relation of imports and exports among them as enables each country by means of her exports to discharge all her foreign liabilities [...] This is, in truth, merely to say that the foreign trade of each country will adapt itself to the pecuniary requirements of that country in relation to the countries with which it trades. If a country has been a large borrower of foreign capital, [...] her exports will tend to exceed her imports; while, under an opposite state of things, that is to say, if a country has been a large foreign lender, [...] the imports will tend to exceed the exports.[727]

Cairnes analyses the impact of credit transactions on foreign trade.

> Let us, then, suppose an industrial colony [...] The amount which the mother-country undertakes to lend, and the colony to receive, we will set down at one million sterling annually. [...] But it is probable that at least a portion of the loan would be sent in gold; and this would operate indirectly toward the same result. For the flow of gold into the colony year by year would necessarily raise colonial prices, while it would tend in the opposite direction in the mother-country; and this, through a play of forces I have already more than once described, would be followed by an increase of colonial importations, and a corresponding decline in the exportation of colonial products – a process which would manifestly continue, until at length the excess of commodities sent from the mother-country to the colony over those received from thence would enable the former to pay the whole annual loan by means of her commodities alone. [...] Up to this stage, then, the effect of foreign borrowing on the colony would, so far as we have yet traced it, tend toward an excess in her importations from the mother-country over her exportations thither. This would be the initial effect. But during the continuance of the process just described, the grounds of an opposite state of things

[727]Cairnes 1878 [1874], pp. 356–57, 358.

> would be steadily developed. [...] With every million sterling annually remitted, the colony would become indebted to the mother-country for the interest on the amount. [...] The obligation of the colony to discharge its growing liability to the mother-country would now, year by year, operate to reduce the excess, until at length the liabilities incident to the loans on each side balancing each other, the equilibrium of trade would be found in such a relation of exports and imports as would balance their remaining obligations – on the supposition that these latter should consist exclusively of commercial debts, then in an equality of imports and exports. This state of things, however, would be but momentary. [...] At this stage, let us make the supposition that she suddenly ceases to borrow, and observe what, on this hypothesis, would be her financial position in relation to the mother-country. [...] The financial conditions of the case being thus changed, the external commerce of the two countries would adapt itself to the altered state of their reciprocal liabilities. Gold would once again begin to flow, but the tide would this time be directed from the colony to the mother-country [...]. Year by year the exports from the colony to the mother-country would exceed its imports thence, until at length the excess became sufficient to enable the former to discharge its financial liability in the products of its own industry. The efflux of gold would at this point cease, and the trade between the two countries would be in equilibrium once more.[728]

It is interesting to remark, that Cairnes in the development of Mill's proposition on the harmonious self-regulation of the balance of payments, when considering the relationship between the United States and England, indicates, that in order for the United States in the future to be able to pay its obligations, [that is]

> [t]o establish, therefore, an excess of exports over imports in the trade of the United States, in lieu of the balance the other way which now exists, prices there must be lowered in relation to prices in Europe. [...] A considerable fall of general prices, however, is a remedy to which manufacturers and merchants will only submit when pushed to extremity. It will, therefore, only come when credit has been strained to the utmost, and a catastrophe is seen to be inevitable; and then it will probably come with a crash. For these reasons I should be disposed to look forward to the immediate

[728]Cairnes 1878, pp. 360–63.

> future of American trade as a period of much disturbance and fluctuation, culminating, it is possible, from time to time in commercial crises.[729]

These observations by Cairnes about the role of crises in the adjustment of the balance of payments introduce dissonance into the harmonic theory. However, these remarks received no development in Cairnes.

Goschen proceeds from the proposition that the exchange rate depends on the balance of international indebtedness.

When the exchange rate is unfavourable for any country, due to a passive condition of the balance of indebtedness (Goschen equates this concept with the balance of payments), then the equilibrium is restored in two ways: the first consists of an increase of export and a reduction of import, and the second – of an increase of the discount rate. When payments for imported commodities over a long period exceed the sums gained from export, then the restoration of the equilibrium of the balance of payments, obviously, can only come about through a change of the direction of trade. When a country uses unlimited credit and imports and consumes more than it exports, then it inevitably falls into debt and it can fix its position by a reduction of consumption and intensification of its productivity. If the country will experience temporary difficulties, if, for example, it imports in the first six months more than it gains from its export, wherewith in the next six months it will export more than will be imported, then such a country, just as an individual, can in calculation on future sales of its commodities conclude a loan. The state, offering a higher interest rate, can receive a delay of payment of debt until that time when through an increase of export, the balance will be equalised, or in case of a refusal to roll over the debt, it will find a third person, who agrees to furnish it with money. The influx of capital from one country to another happens with the purpose of using the higher interest rate; so this rate must be higher than the rate which capitalists can receive in their country, and high enough to cover all costs associated with the transfer of capital from one country to another.

Goschen notes that, 'when a considerable efflux of specie is taking place, the rate of interest will rise in the natural course of things. The abstraction caused by the bullion shipments will of itself tend to raise that rate; and banking establishments will in their own interests (which will be identical with the interests of the public) accelerate this result as far this lies in their power'.[730]

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[729]Cairnes 1878, pp. 371–72.
[730]Goschen 1876, p. 132.

We see that although Goschen does not criticise the views of Mill about the adjustment of the balance of payments through the action of the influence of the tide and ebb of gold on prices, and indicates that for a long period a change of the balance of trade is necessary, he nevertheless devotes his analysis to the influence of the tide and ebb of gold on the interest rate and establishes the proposition that the change of the interest rate correlates with exchange rates.

Goschen indicates that in reality a rise of the bank discount rate always accompanies a favourable change in the exchange rates and vice versa, as soon as the level of the interest rate goes down, the exchange rates become less favourable.

We touched on Goschen since he was the first in the literature to develop propositions about the impact of discount rates on exchange rates, on the adjustment of the balance of payments. But it must be noted that the germs of this theory we find also in other authors. Macleod, for example, indicated, that there are two ways to correct adverse exchange rates – the export of commodities and the hike of the discount rate, but these propositions did not find development in him.

The main proposition of Mill–Goschen is generally accepted in English bourgeois literature. However, Bastable, developing the proposition of Mill–Goschen, in some points returns to Ricardo. He criticises the position of Mill, that in case of debt repayment the first payments will be fulfilled by gold, and only then will the outflow of gold cause a rise of prices in the debtor country, and the inflow of gold – an increase of prices in the creditor country and as a result a corresponding adjustment of the balance of trade occurs, and that the debtor country in this case will suffer a double loss, while the creditor country will receive a double benefit, since as creditor country it will receive commodities at cheaper prices.

Bastable indicates, that the income sums of the creditor country will increase, its purchasing power will rise and it will be able to buy new commodities in the debtor country. The process of payment must not necessarily cause a movement of the precious metals and change in prices. The change of income will result in an increase of purchases at the same prices. The debtor country will lose, only insofar as the payment of debt will cause a rise of currency exchange rate of the creditor country, but these losses under gold currencies are insignificant.[731]

The theories of Ricardo and Mill and their followers rest on the quantity theory of money, on the direct influence of the ebb and tide of gold on money circulation, on commodity prices.

[731]Bastable 1887.

Sidgwick, remaining a quantity theorist, complicates this chain, indicating that the inflow and outflow of gold in the first place is reflected on the reserves of banks. The inflow of gold increases the reserves of banks, who lower the interest rate for credit. The drop of the interest rate increases the loans in banks, which, in its turn, entails a rise of prices and an increase of money in circulation. Conversely, when gold flows out of the country, the reserves of banks are reduced, which leads to an increase in the discount rate, a reduction in credits, a fall of prices.[732]

The indication to the chain – gold, credit, prices – we encounter in a series of authors: Giffen, Nicholson and especially Marshall.

Marshall[733] indicates that the influx of gold is reflected in the increase of bank reserves, this increase leads to a reduction in the discount rate, which contributes to the development of speculation. The development of speculation causes an increase in prices, a greater demand for money as a result, and, thus, the increase in the amount of money, caused by this whole process, will support the increase of prices. However, one must note that in Marshall there are individual places, which do not agree with the quantity theory: for instance he indicates that there may be a significant increase or reduction of the amount of money without it affecting prices, that with a change in the methods of doing business prices can rise without an increase of the amount of gold or silver.

In his last work[734] Marshall approaches the Ricardian thesis that the country sends for the payment of its obligations precious metals or other commodities, in dependence on their relative value on different markets. Marshall develops this Ricardian position, noting especially the role of securities, which have an international market. If under the influence of one or other reason imports enhance, payment of debts or purchase of foreign securities will increase the exchange rate of foreign currency, then,

> [i]f these conditions are continued long enough, the value of gold, as a means of purchasing foreign commodities by being exported in exchange for them, will rise so much that it will be profitably exported for the purpose. [...] But under these conditions merchants are likely to look around them, and see whether there is not some other thing which the country does not produce herself, and therefore does not habitually export; but which could under the circumstances be marketed profitably abroad. Britain, for instance, imports on the balance both lead and Egyptian bonds:

[732]Sidgwick 1883.
[733]See Gold and Silver Commission of 1888, Minutes of Evidence. [reproduced in Marshall 1923]
[734]Marshall 1923.

> but if her merchants were in more urgent need of command over purchasing power in France or elsewhere, the value of lead or Egyptian bonds might have fallen in London relatively to either the French goods which they wanted to purchase, or to the French currency which they had to provide in order to discharge their debts in France. In that case better business might be done by sending to Paris lead or Egyptian bonds, than by sending more coal or other things which are commonly exported from Britain to France; or even by sending gold: and then it might reasonably be said that the exporters 'lead-point' or 'Egyptian bond-point' had been reached, before the gold-point had been reached.[735]

In these propositions we see a return to the position of Ricardo and a disregard of the role of gold as international means of payments.

Marshall, following Goschen, notes the connection between the discount rate and the exchange rate. A sufficiently high discount rate, if it is applied for a long time, leads to an influx of gold into the country and this influx prompts banks to extend credit.

Analysing the interrelation between a gold currency and a paper money, Marshall indicates that under conditions of equilibrium of foreign trade the exchange rates will correspond to the ratio of prices in gold and prices in paper money. If a disequilibrium occurs, then the exchange rate of foreign currency will rise and as a result the exporters of the country, whose currency will be undervalued in comparison to commodity prices, will receive a premium, and for the importers of this country the rise of the foreign exchange rate will have the character of a tariff. But Marshall believes that the bills of exchanges of exporters, offered at a high price, will not find a sale, since for importers prices will be too high, and as a result the exchange rate falls and the old equilibrium will be restored.

Concerning the ratio between a gold and a silver currency, Marshall indicates that this case differs from the previous one, in that, unlike paper money, silver is an object, suitable for export, and therefore, while

> the gold value of the (paper) rouble adapts itself almost instantaneously to the ratio which the gold prices of goods bear to their rouble prices [...], the adjustment is liable to be delayed in the case of the rupee. For whereas Russian exporters can generally make no use of their bills on England except to buy with them [...] commodities in the English market whose gold price has not altered, [...] Indian exporters to England will

[735]Marshall 1923, pp. 153–54.

> use their bills on England to buy [...] silver for importation into India; and [...] this state of things lasts [...] until either the gold price of commodities has fallen in the English market or the gold price of silver has risen there.[736]

Marshall sets out the theory of the correspondence of exchange rates and commodity prices, a theory later developed by Cassel. However, it should be noted that in his testimony to the Indian Currency Committee in 1898 Marshall indicates that the exchange rates depend on the relation between the prices of commodities in the ports, that commodity prices inland are less subject to currency fluctuations than prices in ports.[737]

He further notes that a premium for exporters arises due to the fact that wages and other costs of production lag behind the rise of prices.

Let us sum up the dominant views in bourgeois literature before the First World War on the question about the adjustment of the balance of payments.

1. There existed disagreement between Ricardo and Thornton on the question about the role of gold in the adjustment of international payments.

But if in the question about the causes of the export of gold between Ricardo on the one hand, and Thornton, Malthus and Mill, on the other – there existed disagreement, then the adjustment mechanism of the balance of payments itself is understood alike by all these economists.

2. Ricardo, Mill, and their entire school proceeded from the position that in barter (direct exchange of goods) the import of commodities must always equal the export and that the introduction of money in international commodity turnover does not change this relation.[738]

3. The presence of other categories of the balance of payments besides the export and import of commodities, leads only to the fact that a balance must be established between the exceeding exports or imports, and the other payments, that is an equalisation not of the balance of trade, but [an equalisation] of the balance of payments.

4. This tendency toward equalisation effects a constant proportionality in the distribution of precious metals between countries according to their wealth.

5. The adjustment mechanism of the balance of payments of Ricardo, Mill and their followers is based on the quantity theory of money. An outflow or inflow of gold calls forth a

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[736]Marshall 1923, pp. 317–18. [This is reproduced from the 1880 Commission.]
[737][Reproduced in Marshall 1923.]
[738]This proposition was particularly put forth by Say: 'products are always bought with other products' (Say 1821, p. 238).

corresponding change in commodity prices and restores the equilibrium of the balance of payments through the change of the condition of the balance of trade.

The embryo of the automatic theory of adjustment of the balance of payments through the influence of an influx or efflux of gold we find already in Hume. Hume dissects the hypothetical case of an annihilation in one night of four-fifths of all the money in Great Britain. According to Hume's opinion, in this the case commodity prices and wages will go down in proportion.

> What nation could then dispute with us in any foreign market? [...] In how little time, therefore, must this bring back the money, which we had lost, and raise us to the level of all the neighbouring nations? Where, after we have arrived [replenishing the monetary reserve], we immediately will lose the advantage of the cheapness of labour and commodities; and the farther flowing in of money is stopped by our fullness and repletion.[739]

6. Goschen puts forward the role of short-term capital, changes of the discount rate for the adjustment of the balance of payments. We encounter this thought already in MacLeod and in Tooke.

7. Later economists establish a more complex chain of factors that lead to the adjustment of the balance of payments.

If Ricardo and Mill established a direct link between the influx and efflux of gold and prices, then their followers included credit in the chain: the inflow or outflow of gold causes an enlargement or reduction of bank reserves, a change of the discount rate, an expansion or reduction of credits, which in its turn effects a change of prices.

8. If, according to Mill's opinion, the movement of capital happens at first in the form of money and only afterwards the process occurs of the adaptation of the balance of trade to this movement, then Bastable notes, that the change in income of two countries may evoke an increased demand of one country on the commodities of the other, without causing a movement of gold. Thus, in Bastable we encounter the embryo of the theory of transfer of purchasing power.[740]

9. With respect to paper currencies of countries with freedom of gold export, according to Goschen's opinion, the same mechanism of inflow and outflow of gold operates as in the case

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[739]Hume 1889, p. 333.

[740] [This theory will be the topic of section two in chapter eleven.]

of gold currencies. As regards the exchange rate of paper money under prohibition of gold export, then in this case, according to Goschen's opinion, exchange rate fluctuations do not have limits. Goschen does not analyse the adjustment of the balance of payments for paper currencies. In Marshall we find a proposition about correlation of the exchange rate of paper currencies with the average domestic commodity prices, but Marshall does not give a detailed analysis of the mechanism of adjustment of the balance of payments under paper money.

10. The dominant teachings in bourgeois political economy before the First World War developed a theory of the harmonic, automatic restoration of the equilibrium of the balance of payments. Violation of the equilibrium led to an outflow or inflow of gold, which caused a change in the prices of commodities, a change in the balance of trade and a restoration of the equilibrium of the balance of payments.

2. The opponents of the quantity theory of money

The quantity theory of money, as we know, called forth objections from the Banking School in the persons of Tooke, Fullarton and others.

Tooke indicated:

'[T]he doctrine by which it is maintained that every export or import of bullion in a metallic circulation must entail a corresponding diminution of, or addition of money in circulation, and thus cause a fall or rise of general prices, is essentially incorrect and unsound'.[741]

Marx points out, that 'continued investigation of the history of prices compelled Tooke to recognise that the direct correlation between prices and the quantity of currency presupposed by this theory is purely imaginary, that increases or decreases in the amount of currency when the value of precious metals remains constant are always the consequence, never the cause, of price variations, that altogether the circulation of money is merely a secondary movement and that, in addition to serving as medium of circulation, money performs various other functions in the real process of production'.[742]

The Banking School in the persons of Tooke, Fullarton, unlike Ricardo, understands the significance of gold, as an international means payment and unlike the whole quantity school rejects the mechanical effect of the inflow and outflow of gold on commodity prices.

[741]Tooke 1844, p. 122.
[742]Marx 1987b, p. 415.

Nevertheless we do not find an analysis of the adjustment of the balance of payments in Tooke and Fullarton.[743]

A position of the Banking School regarding the adjustment of the balance of payments was later developed by some economists, especially the American economist Laughlin and the French economist Nogaro.

Laughlin subjects the classical theory of the adjustment of the balance of payments to criticism.

The existence of an international market, connected by the telegraph, in his opinion, excludes the presupposition that the gold prices of commodities in one country can be higher than in another, even for a short period of time (excluding difference in prices due to transportation costs).

In international trade operations the balance is only paid by gold, because the movement of gold is the result, and not the cause of the movement of commodities. Recognising that international accounts include a whole series of operations and that the export or import of gold is their result, '[i]n fact, it [becomes] clear, by the logic of events, that the shipments of gold between commercial countries has little or nothing to do with the level of prices of merchandise in any one country'.[744]

The reason, that a balance in favour of some country is not paid for by gold, lies in the possibility of placing this balance overseas at a higher interest rate than at home.

> The recognition of the force exerted by the rate of interest on the movement of loanable capital gives the final coup de grace to the old theory, which based its change of general prices upon the international movement of specie. The order of events is

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[743] [Marx's critique of Tooke and Fullarton: 'Our capitalist discovers, that his capital would be valorised more abroad than at home, and like money itself, our capitalist is cosmopolitan. The question arises just: In what form should capital move abroad? As *commodity-capital*? But it is possible, that the border of foreign countries is occupied by customs officers and trespass collectors, who prevent the entry of the commodities. Or certain sorts of commodities may be produced more expensively at home than abroad. They are then not suitable for export. Of other domestic commodity-sorts the foreign [country] may be over-supplied [*überführt*] and their price therefore may be depressed below its own normal height, and so on. Under such conjunctures of the commodity market, the most advantageous and safest option is to send the travel-hungry [*wanderlustige*] capital in *money-form*, as *money-capital*. But why? Not because money-capital is capital, but because it is capital in money-form, and money now also acts as *world money*. It is the difference of *money* and *commodity*, not that of money-*capital* and commodity-*capital* which is important here. Being *capital* rather constitutes their common character, [whereas] being capital in the form of *money* or *commodity* constitutes their specific difference. Modern political economy's only consolation remained its elevation above the errors of the Monetary and Mercantile systems. It therefore anxiously blurs the difference of money from the commodities and no less [anxiously] also seeks to explain things from the capital-character of money-capital, that only arise from its money-character (compare Marx 1987b, pp. 416–7)' (Marx 2008, p. 20, our translation, – the reference at the end is by Marx himself). We refer further to Marx 1987b, pp. 245–47. Same critique in Marx 1981, p. 584. Compare Marx 1978, p. 574.]

[744] Laughlin 1903, p. 382.

> quite the other way: relative prices cause exports and imports of goods; and the shipment of gold is not necessarily made even to cover balances of merchandise. If gold moves, it goes not merely because of the account in goods and securities, but of the investment of international capital.[745]

Laughlin also criticises more modern theories about the influence of the movement of gold on prices through the means of credit. In reality, writes Laughlin, banks provide loans as a result of demand, conditioned by the development of commodity turnover under the presence of satisfactory collateral, and not merely because their reserves are high. 'To be sure, if reserves rise, rates of interest will fall and new loans are possible; but merely because a bank can loan, it does not follow that it does loan'.[746]

'The rate of interest, the quantity of bank reserves, the price of exchange, merely form the present-day machinery throughout the commercial world by which gold is distributed to each country in the proportion of its needs of all kinds, monetary and non-monetary.'[747]

Laughlin rejects the influence of the movement of gold on prices and, believes, that the adjustment of the balance of payments occurs mainly through credit operations and he connects the movement of gold itself mainly to movements of capital. However, Laughlin accepts the Ricardian proposition on the proportional distribution of gold between countries. Laughlin accepts the harmonic equilibrium of the balance of payment, putting forward only, as factor setting this equilibrium, the movement of capital instead of the balance of trade.

Nogaro criticises the fundamental principles of the classical theory. Nogaro considers the position of Mill incorrect that the tendency towards equality between exports and imports exists not only in direct commodity exchange, but also in trade by means of money. In trade by means of money the need for equality between bought and sold commodities disappears, because commodities can be bought for money. The quantity theorists object to this argument, by saying that the inflow or outflow of gold will cause changes in commodity prices and will lead to a new equilibrium of the balance of trade. Nogaro subjects also this fundamental point of the quantity theorists to criticism.

The classical theory is based on the establishment of a connection between the balance of payments and the movement gold, [between] the movement of gold and prices, [between] prices and the balance of trade.

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[745]Laughlin 1903, p. 383.
[746]Laughlin 1903, p. 387.
[747]Laughlin 1903, p. 388.

Analysing the interrelation between money and prices, the quantity theory stops only at alterations on the money side and ignores changes on the commodity side. The quantity of money in circulation and the metal stock are far from matching and the relation between them does not have a constant character. '[T]he relation which exists, in reality, between the monetary stock [reserves] and prices is too complex and too uncertain, for it to be reduced to the simple conception of the Ricardian theory'.[748]

Considering the question about the impact of prices on foreign trade, Nogaro rejects that a fall of the prices of individual commodities is required to cause an increase in demand for them in another country and that this increase in demand will be so great that the value of export increases. capacity. It can in reality remain unchanged or even fall. As a result Nogaro comes to the conclusion that the law on the tendency of the balance of payment towards adjustment has no scientific value and that there is no natural regulator for adjusting the balance of payments. Therefore, a 'negative' balance of payments can continue endlessly and lead to a significant outflow of preious metals from the country.

In a later work Nogaro points out that the classical theory hastened to explain a phenomenon whose very existence was not clearly established.

Even in the calm period of the nineteenth century we cannot observe the presence of a general equilibrium of the balance of payment. A number of countries receive annually, despite the new placement of capital, partially neutralising their demands on abroad, a balance in the form of gold, while others countries are permanent debtors. Countries producing gold must pay dividends to foreign shareholders of the mines in the form of gold bullion. Other countries – most numerous – are the victim of chronic foreign exchange crises and are forced to constantly borrow for the balancing of their international obligations.

'To the extent that one can talk about an equilibrium between international exchanges (*échanges internationaux*), it seems the principle factor of this equilibrium today is the movement of capitals'.[749]

Nogaro stands out from other bourgeois economists by his coherent critique of the quantity theory. Rejecting the quantity theory, he logically rejects also the thesis on the mechanical self-regulation of the balance of payments and comes to the conclusion that there is no adjustment of the balance of payments in the sense understood by the quantity theorists (that is, that the inflow and outflow of gold has only a temporary character, causing a

[748]Nogaro 1904, p. 152.
[749]Nogaro 1924, pp. 296–97.

restoration of the equilibrium between all elements of the balance of payments, not counting gold), and that therefore also the law on the proportional distribution of gold between countries is incorrect. An outflow of gold caused by a passive balance of payments can lead to the exhaustion of the gold reserves.
However, it should be noted that Nogaro does not develop a proposition on crisis as a factor of the adjustment of the balance of payments, and does not consider the emergence of a passivity of the balance of payments in connection with the cyclical development of the national economy.

3. The theory of Marx

In Marx we find a critique of all the main points of the so-called classical theory. We indicated, that Marx criticised Ricardo's position, that gold export is the result of an abundance of money, noting, that Ricardo did not understand the role of precious metals as international means of payments.
Marx criticises also Mill's variation of the equilibrium of the balance of payments.

> This is in actual fact the old humbug that changes in the quantity of gold, since they increase or decrease the amount of means of circulation in a country, must necessarily raise or lower commodity prices there. If gold is exported, then according to this currency theory commodity prices in the country where the gold goes must rise, and with them also the value of the exports of the gold-exporting country on the market of the gold-importing one; the value of the latter's exports on the former market, on the other hand, would fall, since their value would rise in their country of origin, where the gold finds its way. In actual fact, a decline in the amount of gold simply raises the rate of interest, while an increase lowers it; and if these fluctuations in the interest rate did not come into account in establishing the cost price, or determining demand and supply, commodity prices would be completely unaffected.[750]

Marx also destroys the basic assumption of Ricardo and Mill about equality between purchases and sales in monetary exchange and indicates that the separation of purchase and sale with the participation of money creates the possibility of a crisis. '[T]he crisis in its first

[750]Marx 1981, p. 685.

form is the metamorphosis of the commodity itself, the falling asunder of purchase and sale'.[751]

Marx considers alteration in the balance of payments as one of the moments in the circuit of the industrial cycle.

> A drain of metal is generally the symptom of a change in the state of foreign trade, and this change is in turn an advance warning that conditions are again approaching a crisis. [...] A drain, i.e. a continued heavy export, of precious metal appears as soon as returns are no longer easy, markets are overstocked and the apparent prosperity is maintained only by credit.[752]
>
> As regards the question of imports and exports, it should be noted that all countries are successively caught up in the crisis, and that it is then apparent that they have all,

[751]Marx 1989b, p. 140. ['Ricardo himself did not actually know anything of crises, of general crises of the world market, arising out of the production process itself. He could explain that the crises which occurred between 1800 and 1815, were caused by the rise in the price of corn due to poor harvests, by the devaluation of paper currency, the depreciation of colonial products etc., because, in consequence of the continental blockade, the market was forcibly contracted for political and not economic reasons. [...] Later historical phenomena, especially the almost regular periodicity of crises on the world market, no longer permitted Ricardo's successors to deny the facts or to interpret them as accidental' (Marx 1989b, pp. 128–9). 'The constant recurrence of crises has in fact reduced the rigmarole of Say and others to a phraseology which is now only used in times of prosperity but is cast aside in times of crises. In the crises of the world market, the contradictions and antagonisms of bourgeois production are strikingly revealed' (p. 131). '[in Ricardo, when he follows Say] the most complicated phenomenon of capitalist production – the world market crisis – is flatly denied' (p. 132). 'The world trade crises must be regarded as the real concentration and forcible adjustment of all the contradictions of bourgeois economy' (p. 140). 'Ricardo is therefore consistent in denying the necessity of an expansion of the market simultaneously with the expansion of production and growth of capital. All the available capital in a country can [for Ricardo] also be advantageously employed in that country. Hence he polemises against Adam Smith, who on the one hand put forward *his* (Ricardo's) view and, with his usual rational instinct, contradicted it as well. Adam Smith did not yet know the phenomenon of overproduction, and crises resulting from overproduction. [But] he regards the mere fact that the internal market develops into an external, colonial and world market, as proof of a so-to-speak relative overproduction (existing in itself) in the internal market' (Marx cites Ricardo's polemic against Smith, pp. 154–6). 'In world market crises, all the contradictions of bourgeois production erupt collectively; in particular crises (*particular* in their content and in extent) the eruptions are only sporadical, isolated and one-sided' (p. 163).]

[752]Marx 1981, pp. 704, 705. [By the way, here is a passage from the original manuscripts of *Capital* volume two that mentions the world market, which Engels did not include in his edition (its place would have been before the first paragraph on Marx 1978, p. 157): 'This phenomenon [of general crisis, having to do with the demand for payment, and manifested in the decline of the number exchanges of capital against capital] occurs, because the *transformation of commodities into money* – thanks to [*durch*; through] the world market and the credit system – is made independently of the sale of commodities to the final buyer [end-user]; that is, the *transformation of commodities into money* is anticipated and carried out independently – within certain limits – of its real individual process of consumption [namely by remaining 'in transition' in circulation at the level of resellers, distributors]. However, the creation of the forms of this *anticipation* is quite necessary, and arises by itself from the capitalist mode of production, whose products by their scale and the need of continuous expansion of this scale, are [not set] by one *predestinted* sphere [*Kreis*] of [market] demand of to-be-satisfied wants. In *credit* [meant is probably commercial credit] the capitalist mode of production creates a for the scale of its processes necessary *shortened* form of the *circulation process,* and simultaneously the *world market*, created by it [capitalism], helps in every concrete case shroud the operation [*Wirken*] of this [shortened] form, and simultaneously gives an extraordinary field of play [*Spielraum*] to this [particular] form of expansion. To explain crises from the misuse of *credit* would mean explaining crises from the *ostensible* [*erscheinenden*] *form of circulation* of capital' (Marx 2011, pp. 173–74, our translation).]

> with few exceptions, both exported and imported too much; i.e. the *balance of payments is against them all*, so that the root of the problem is actually not the balance of payments at all. [...] In times of general crisis the balance of payments is against every country, at least against every commercially developed country, but always against each of these in succession – like volley firing – as soon as the sequence of payments reaches it; and once the crisis has broken out in England, for example, this sequence of dates is condensed into a fairly short period. It is then evident that all these countries have simultaneously over-exported (i.e. over-produced) and over-imported (i.e. over-traded) and that in all of them prices were inflated and credit overstretched. In every case the same collapse follows. The phenomenon of a drain of gold then affects each of them in turn, and shows by its very universality [*Allgemeinheit*]: (1) that the drain of gold is simply a phenomenon of the crisis, and not its basis; (2) that the sequence in which this drain of gold affects the different countries simply indicates when the series reaches them, for a final settlement of accounts; when their own day of crisis comes and its latent elements in turn emerge in their own case.[753]

How does, in the opinion of Marx, the adjustment of the balance of payments occur? Marx gives a classical description of the mechanism through which in the period of crisis the balance of payments is aligned.

> Firstly, the shipment of precious metals abroad; then the forced selling of goods sent on consignment; the export of commodities in order to sell them off cheaply or obtain money advances on them at home; the recall of credit, the fall in security values, the forced selling of foreign securities, the attraction of foreign capital to invest in these devalued securities, and finally bankruptcy, which settles a whole series of claims.[754]

We see that, in contrast to the quantity theory, Marx believes that the export and import of gold does not directly affect prices. The export and import of gold affects the interest rate, credit. How does the change in the interest rate affect prices? Marx indicates, that 'if these fluctuations in the interest rate did not come into account in establishing the cost price, or determining demand and supply, commodity prices would be completely unaffected'.[755]

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[753]Marx 1981, pp. 622, 623–24.
[754]Marx 1981, p. 650.
[755]Marx 1981, p. 685.

Thus, changes in the interest rate may affect prices by influencing the costs of production and the demand and supply of commodities. These influences, obviously, are of a contradictory character. A rise in the interest rate increases the costs of production and a fall – decreases them; at the same time an increase of the interest rate can reduce demand for commodities, and a decrease [of the interest rate can] enhance it [that is demand]. This last proposition, as we shall see later, is one of the favourite arguments of contemporary supporters of price stabilisation.

Marx, criticising Wilson's thesis that low prices coincide with a low interest rate level, indicates that

> [p]recisely the opposite is the case during crises; commodities are there in excess, not convertible into money, and the rate of interest is therefore high. In another phase of the cycle, there is a great demand for commodities and hence easy returns, but at the same time a rise in commodity prices, and a low rate of interest on account of these easy returns.[756]

But if Marx points to the coincidence of a low interest rate with rising prices and a high interest rate with low prices, then the fundamental difference between Marx and bourgeoisie economists lies in the fact, that the latter see in the change of the interest rate the reason for the change of prices, while Marx notes, that 'the interest rate and commodity prices exhibit completely independent movements; while the movements of the interest rate are precisely correlated with the movements of the metal reserve and the rate of exchange',[757] and believes, that the influence of the efflux and influx of gold depends on the condition of the industrial cycle. '[W]e should note that a large influx of precious metal can take place at the same time as a contraction in production, this being always the case in the period after a crisis'.[758]

Marx says that 'it is not the mere quantity of precious metal imported or exported that operates as such, but that this firstly has its effect by way of the specific character of precious metal as capital in the money form, while secondly it acts as the feather which, added to the weight already on the scales, is enough to tip the balance decisively to one side; it has this effect because it intervenes in circumstances where anything extra on one side or the other is sufficient to tip the scales'.[759]

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[756]Marx 1981, p. 723.
[757]Marx 1981, pp. 722–23.
[758]Marx 1981, p. 720.
[759]Marx 1981, pp. 705–6.

'Similarly, on the other hand, even a very severe drain of gold is relatively without effect, unless it takes place during the critical period of the industrial cycle'.[760]

Marx, speaking about crisis and the adjustment of the balance of payments, gives the concept of adjustment a completely different meaning than Ricardo, Mill and other representatives of bourgeois political economy. For Ricardo–Mill adjustment of the balance of payments is a self-regulating process: disturbance of the adjustment of the balance of payments carries a temporary character, since the equilibrium is again restored by the influence of the efflux and influx of gold on prices, on the balance of trade, and thanks to this process the proportionality of gold distribution between countries is again restored.

Marx views the disturbance of the equilibrium of the balance of payments as a phenomenon accompanying, or more often preceding, the onset of a crisis, and the equilibrium is restored not in a harmonic way, but by an outflow of gold, dumping commodities and securities at reduced prices and, finally, bankruptcy .

Marx's critique of the self-regulating mechanism of Ricardo–Mill also undermines the law established by Ricardo about the proportionality of the distribution of gold and the restoration of this proportionality after a temporary disturbance of the equilibrium.

Nevertheless one should note, that in the period of industrial capitalism there was a certain proportionality in the distribution of gold between countries.

England – the main creditor country – did not accumulate excess gold reserves, providing its available funds in the form of loans abroad. England by virtue of its monopoly position of creditor country could get by with relatively small gold reserves.

We find in Marx the following observation:

> As soon as the *general crises* have burned out, the bullion (leaving aside the influx of surplus bullion from the producing countries) is again distributed in the proportions in which it previously existed as a hoard in the various countries, *in a state of equilibrium*.[761] With circumstances remaining otherwise the same, the relative size of the hoard in each country is determined by this country's role in the world market. It flows out of a country that has a greater share than normal, and into another; these movements of ebb and flow simply bring about its original distribution among the various national reserves. This redistribution is nevertheless mediated by the effect of various different circumstances that will be mentioned in dealing with the exchange

[760] Marx 1981, p. 706.
[761] [For this sentence we use Marx 2015, pp. 667–8.]

> rates. As soon as the normal distribution [*normale Vertheilung*] is re-established – from this moment on – there is first of all a growth and then again a drain.[762]

In his note Engels says, that '[t]his last sentence is evidently applicable only to England, as the focal point of the world money market'.

If during the time of Marx it was possible to speak about the restoration of a 'normal distribution of gold' as a fact, then in the era of imperialism, particularly in the period of the general crisis capitalism, the law of uneven development of capitalism, established by Lenin and developed by Stalin, is manifested also in the uneven distribution of gold between individual countries.[763]

Thus, we see, that if Marx also spoke about a normal distribution of gold, then his criticism undermined the theoretical foundations of the proposition of Ricardo–Mill about the self-regulation the balance of payments, about the harmoniousness of this process.

The fundamental proposition of Marx's theory of the adjustment of the balance of payments can be boiled down to the following theses: 1) the balance of payments is adjusted by the export and import of gold, as world money, 2) disturbance of the equilibrium of the balance of payments occur usually in the period preceding the onset of crises, and is a symptom of the impending crisis, 3) the upcoming crisis is accompanied by an increase of the interest rate, a fall in prices of commodities and securities. The increased interest rate attracts foreign capital, reduces lending to other countries. 'Capital belonging to this country [England], which has been invested in public and other securities abroad, when the interest was very low here, was thus again brought back when the interest became high'.[764] The low prices of securities attract foreign capital, the low commodity prices increase the export of commodities. The crisis is accompanied by bankruptcy, the termination of payments. All these phenomena in aggregate adjust the balance of payments. 4) Export and import of gold does not directly affect prices, export and import of gold affects the interest rate. The

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[762]Marx 1981, pp. 703–4.

[763][Trotsky criticised Stalin's conception: 'Marxism follows from world economy, not as a sum of national parts, but as a mighty independent reality, which is created by the international division of labor and by the world market, dominating powerfully in the present epoch over national markets. … [S]pecific features of national economy, no matter how big, enter, and that in an increasing measure with their component parts into the higher reality, which is called world economy, and on which, in the final analysis, the internationalism of the Communist Parties is founded. … Stalin introduced the law of uneven development not in order opportunely to foresee the seizure of power by the proletariat of a backward country, but in order after the fact, in 1924 to hang on to the victorious proletariat the task of constructing a national socialist society. But it is precisely here that the law of uneven development has nothing to do with the matter, for it does not substitute and does not remove the laws of world economy; on the contrary, it is subordinated to them' (Trotsky 1930, 'Internationalism and the Theory of “Exceptionalism”', Preface to the American Edition of *The Permanent Revolution*).]

[764]Marx 1981, p. 725.

influence of gold export on the fall of prices, on the onset of the crisis depends on the phase of the industrial cycle in which the gold export takes place. When conditions for the crisis are mature even an insignificant outflow of gold can have a strong influence on the reversal of the conjuncture and, conversely, when there is a rising conjuncture even a significant outflow of gold has a relatively negligible influence. 5) Marx destroyed the theory of the classics of bourgeois economic science about harmonic automatic self-regulation of the balance of payments, about the law of uniform distribution of gold between countries.

In the epoch of industrial capitalism the theory on automatic self-regulation of the balance of payments completely dominated in bourgeois political economy. Not only supporters of the quantity theory of money, but also its opponents shared the theory of self-regulation, wherewith instead of the balance of trade, as factor restoring the equilibrium, they put forward the movement of capital. Only Marx inflicts the crushing blows on this theory, by subjecting its fundamental presuppositions to critique.

Chapter Eleven

Theories of Adjustment of the Balance of Payments in the Period of the General Crisis of Capitalism (1945)

Lazar Frej

This is the subsequent (fourth) chapter of Frej's 1945 book (a contemporary reviewer found these two chapters the best in the book).

The present chapter counts eight sections; 1) The neoclassical theory; 2) The theory of the transfer of purchasing power; 3) Combination of the neoclassical theory and the theory of transfer of purchasing power; 4) Reparation payments and the adjustment of the balance of payments; 5) Change of interest rate and adjustment of the balance of payments: 6) Theories that reject the automatic regulation of the balance of payments; 7) The question on uneven distribution of gold in the modern literature; 8) (no title).

It is understandable that before 1945 there was discussion of uneven distribution of central banks' gold reserves (section seven), but one could wonder what remains of these theoretical concerns after 1945 or after the 1970s (see also the remark by Hahn quoted in Zvavich's article). Maybe there exists an analogy to some complaints today about certain countries' alleged excessive sovereign debt accumulation, and about their too positive balance of payments, yet that is not about money in its absolute existence, as precious metal.[765] The statistics about monetary flows of gold (and other precious metals) between countries today is also a complex issue.[766] If there is an arrangement which puts an obstacle to the (private) movement of gold between countries, this signifies a stage of capitalism with a reduction in the export of capital (understood as money-capital), sometimes lamented as the lost automatic (free world market) gold equilibrium mechanism.[767] In the previous chapter, Frej noted that in

[765] During the 1991 Indian economic crisis, the Bank of England and UBS accepted gold as collateral from the Reserve Bank of India. Sweden's central bank used its gold as collateral during the 2008 crisis.

[766] See for instance the writings of gold analyst Jan Nieuwenhuijs; 'Bucking Gold Repatriation Trend, Argentina Sends More Gold to London' (online at Money Metals, 17 September 2024): 'Monetary gold can cross borders outside the scope of customs statistics, which apparently happened in 2017. However, if a central bank lets a bullion bank take care of the shipping, the bullion bank has to deal with customs, and the gold will show up in trade data (as was the case with the secret purchases by Saudi Arabia's central bank in recent years). In the same spirit, new trade data from the UK shows another import of 3 tonnes from Argentina for July. It looks like BCRA is sending more and more gold to London in a desperate need for foreign exchange'.

[767] It seems to us that export of money (loans) in the form of credit notes or even as state paper money, does not allow direct (without currency exchange) purchase of commodities priced in other currencies. By contrast, loans in the form of gold allowed the debtor country to directly purchase all commodities, even those not priced in the currency of the creditor country. In the context of the decline of capitalism, Hillel Ticktin writes about (state) nationalisation of money (that is, disappearance of world money), – even anti-Semitic discourse today

Marx's era of capitalism he could speak (after a crisis) about the restoration of a 'normal distribution of gold' as a fact, whereas 'in the period of the general crisis capitalism' this is no longer valid: the 'law of uneven development of capitalism ... is manifested also in the uneven distribution of gold between individual countries'.

In the final (longest) section, Frej draws ten conclusions from his preceding literature overview, and then presents his outline of the particular features of the period of the general crisis of capitalism. Contrary to expectation perhaps, Frej does not denounce the bourgeois theory of this period as qualitatively worse than that of the classics (or of the pre-1914 era), dealt with in his previous chapter. As a matter of chronology, the dividing mark of Frej's two chapters seems to be World War One. Conceptually, imperialism, as a stage of capitalism, started before 1914 and so his previous chapter already addressed the imperialist epoch as well. The general crisis of capitalism is a period of further development within the imperialist epoch.[768] We regard the restriction on domestic circulation of gold as one of its monetary phenomena.

For our volume we did not include the works of the Soviet author Frumkin.[769] He also was editor of a 1959 translation (from Chinese, Vneschnotorgizdat) of Baoyi Chu's brochure *Critique of Bourgeois Theory of Free Trade*, reviewing the classics of pre-monopoly capitalism up to post-WW2 writers. The 1969 English translation of Frumkin's book is almost 500 pages. For a non-Marxist perspective on the foreign trade theory in East Central European nations after 1945, see the American economist Pryor's survey.[770]

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1. The neoclassical theory

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no longer rallies against the "Golden International" as it did in the past. That some part of foreign direct investment must be exported in money form (and not purely in the form of commodities), is a necessary assumption for a theory of realisation (within capitalism) of the expanding surplus value, that is, some amount of wages must be paid to workers abroad, or concretely, domestic capitalists must export (monetary) gold to hire workers abroad.

[768][We will use the terms discount and interest rate interchangeably.]

[769]Born in Vilnius in 1920. Frumkin also wrote some sections in Potapov 1954 (in chapter nine 'Critique of bourgeois theories of foreign trade').

[770]Pryor 1962. As an example of 'exaggerated Ricardo critique' Pryor also referenced a 1955 article by György Göncöl ('A külkereskedelem marxi elméletéhez. Ricardo és Marx kiinduló pontjának történelmi különbözősége'), which can be found in English on the CIA website ('Hungarian's view of Marxist theory of foreign trade'); in French: 'La théorie marxiste du commerce extérieur', *Etudes Economiques*, no 95-96, 1955, pp. 74–97. Göncöl (Singer) was a nephew of Eugen Varga (more on Göncöl see Katalin 2019).

In the period of the general crisis of capitalism the theory of the adjustment of the balance of payments, advanced by classical bourgeois economy, continues to be accepted by most economists of England and the United States.

At the head of the American school stands Frank Taussig. Like the bourgeois classics, Taussig proceeds from the proposition that foreign trade is conditioned by the difference in the relative value of commodities in different countries, and that an equilibrium of payments between countries is achieved when exports equal imports. In case of a disturbance of the equilibrium of the balance of trade the inflow or outflow of gold, which raises or lowers prices, equalises exports and imports. Introducing further into his analysis the invisible exports and imports, Taussig says that the equilibrium of the balance of payments is restored through the influence of the outflow or inflow of gold on the balance of trade.

With external loans the scenario is possible, that the loan will not be accompanied by an outflow of gold, [namely] when the borrower uses the total amount lent to it by the creditors to buy commodities in their country. Such cases have occurred either under the presence of special agreements when providing the loan, or for commercial reasons. Great Britain, for example, was the largest creditor before the war and at the same time the country in which it was possible to buy industrial equipment at the cheapest price.

However, Taussig finds that cases, when the purchases of commodities in creditor countries undertaken by borrower countries reaches such sizes that the outflow of [precious] metal would be made unnecessary, are extremely rare.

International loans disturb the existing balance of payments and cause an ebb of gold from the creditor country to the borrower country. This process leads to a decrease of prices in the creditor country. When Great Britain provided credit to the United States, the latter had a double benefit: it not only received an additional supply of imported commodities, but all the imported commodities it received at more advantageous conditions.

Creditor countries widely provide loans in the boom period [of the cycle], with the onset of the crisis these loans cease. The interest that the debtor country must pay to the creditor is no longer compensated by new loans. There comes a sudden turn in the position of the balance of payments of the debtor. It must immediately transfer the interest to the creditor country, and this is reflected on the position of its banks, on the increase of the discount rate,[771] on the fall of prices.

If such a process continues long enough, then the debtor country begins to export more than it imports. Thus, if in the first phase the conditions of exchange of commodities are more

[771][We will use the terms discount and interest rate interchangeably.]

favourable for the borrower, then in the next stage they become more favourable for the creditor country.

Taussig says that the whole mechanism described by him 'rests on the assumption that the flow of specie affects the prices and money incomes of the trading countries. An inflow of specie causes prices and money wages to rise; an outflow causes them to fall'.[772]

The general course of Taussig's reasoning rests, in this way, on the propositions of the quantity theory of money.

To understand the mechanism of the balance of payments, in the opinion of Taussig, the influence of the movement of metallic money (today gold) on prices is essential. Today the main instruments of circulation, other than gold, are banknotes and deposits. The most mobile instrument are deposits. Therefore Taussig focuses his attention on the connection between bank deposits and price changes. The connecting link is the discount rate, and changes in the discount rate depend, mainly, on the tide or ebb of gold, as the fundamental bank reserve.

Taussig believes that the process of adapting the sums of deposits to the gold reserves does not occur automatically.

Taussig says that he has sketched the various ways (discount rate, movement of securities) 'in which the international movement of gold may be staved off by various devices and reduced to a minimum'.

> In the last resort, when all expedients for adjusting and equalizing the payments between nations have been utilized and exhausted, specie will flow in payment of balances.
>
> When trade is following it ordinary peaceful course, in a world not racked by political or economic cataclysms, it is likely to flow in small volume, even in driblets. [...] But if there be a succession of such influences, if there be a continued lack of equilibrium between a country's debits and credits, [then] sustained changes in the demand for commodities, or continuing remittances on other than merchandise account, will show their consequences sooner or later in the international distribution of specie. Then the question becomes one of changes in prices and money incomes.

Taussig says that

[772] Taussig 1927, p. 198.

> in the slow process of adjustment toward the eventual outcome there may [...] emerge [...] unexplained phenomena [... Therefore] there must be time for the fundamental forces to bring about their results. These forces are modified, counteracted, strengthened, by others of less strength but of more rapid operation; and they are themselves subject to change in the course of time.[773]

We see that though Taussig is basically a follower of the classical theory, he is nevertheless forced to acknowledge that the adjustment of the balance of payments is more complicated than Ricardo, Mill, and their followers depicted.

Taussig admits that the inflow of gold is often not the cause, but the consequence of bank expansion; it would seem that this recognition undermines the foundations of the quantity theory, but Taussig does not draw the logical conclusions from his reservations and does not consider the process of bank expansion as the result of a determined stage of the business cycle, based on the development of the industrial process.

The reservations, given by Taussig, seem to undermine also the law on the uniform distribution of gold between countries, since insofar as the process of the adaption of prices to the movement of gold is of a lengthy nature and along with this basic factor counter-posing forces act, then there can be no question about automatic adjustment of the balance of the payments and about restoration of the proportional distribution of gold between countries. However, Taussig does not draw this conclusion and merely says that this process takes place over a long period.

Thus, Taussig remains on the basis of the classical theory and merely believes, that it is necessary to take into account the element of time, that other factors can merely slow down the action of the inflow or outflow of gold on prices, but ultimately the change of commodity prices establishes an equilibrium of the balance of payments.

To prove the correctness of his theoretical propositions Taussig gives an analysis of the change of the balances of payments of a number of countries, but particularly characteristic, in his opinion, is the example of Canada for the period 1900–13.

Viner,[774] who on the advice of Taussig made an analysis of the balance of payments of Canada for 1900–13, tries by the Canadian example to prove the correctness of the theory of the classical school about the adjustment of the balance of payments.

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[773] Taussig 1927, pp. 218, 220–21.
[774] Viner 1924.

Let us see how in the opinion of Viner and Taussig this process was carried out in Canada. In the period 1900–13 Canada borrowed about 2,500 million dollars abroad, of which the greater part on England, about 1,750 million dollar, and on the United States 630 million dollar. Canadian borrowers received loans in pounds sterling, deposited them in Canadian banks and converted them into Canadian currency. The expenditure of this money in Canada caused an increase of prices, which led to the passivity of the balance of trade.

Canadian banks paid for imports by their funds in British banks and, in this way, loans equalised the passivity of Canada's balance of trade. According to the theory of the classics the price increase in Canada should have been caused by the flow of gold into Canada. Meanwhile, as Viner was forced to admit, the inflow of gold for this period in Canada was only 123 million dollar.

Viner says, that though the movement of gold itself over the period 1900–13 played no role in the adjustment mechanism of the balance of payments, this role was played by the non-currency [foreign exchange] assets of Canadian banks.

Viner remarks that the influx of capital into Canada was accompanied by a rise of prices in Canada compared to prices in other countries. This rise was most noticeable with respect to domestic commodities and services, least reflected in imported commodities, while exported commodities occupied a middle place. This situation stimulated imports, reduced exports. The passive saldo of the balance of trade of Canada amounted to 1,300 million dollars, and as a result there was an adaptation of Canada's balance of trade to the movement of loans.

Based on Canada's experience Viner comes to the conclusion, that 'if the outside reserves are regarded as equivalent to gold in Canada, then the Canadian process of adjustment of international balances approaches more closely that set forth *a priori* in the generally accepted theory'.[775]

In reality, the data given by Viner do not support, but refute the classical theory.

The loans provided to Canada did not cause an outflow of gold from England to Canada, but the small influx of gold, which took place in the period 1900–13, was, as Viner himself indicates, a result of the bank expansion in Canada, which demanded some build-up of [metal] cash reserves. Meanwhile, according to the quantity theory, the influx of gold had to be the fundamental cause of the growth of [bank credit] deposits, and the latter had to entail a rise of prices.

Viner acknowledges an absence of gold inflows to Canada, but believes that in this case foreign exchange assets replaced gold.

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[775] Viner 1924, pp. 181–2.

However, there is no reason either to consider the increase of foreign assets in Canadian banks the cause of the significant increase of deposits in banks: and the latter – the cause for the rise of commodity prices.

Marx points out that 'when capital is directly exported as capital, e.g. in order to lend a definite amount on interest abroad, it depends on market conditions whether this is exported in the shape of commodities or of gold; and if it is exported as gold this is done because of the specific function which the precious metals perform as money in contradistinction to commodities'.[776]

These observations show that the question of importing commodities or gold depends on the general conjuncture of the country.

The uptake of the economic conjuncture in Canada called forth the rise of prices, increased imports. The expansion of production called forth the expansion of bank loans and the received foreign loans stimulated the development of production and contributed to the economic upswing. Therefore one cannot deny the influence of foreign loans on the development of the market, on the rise of prices. But this recognition has nothing in common with the thesis of the quantity theorists, that an increase in the amount of money causes the rise of prices. The economic upswing caused the expansion of bank loans, and the latter resulted, like Viner indicated, in an influx of gold, moreover quite an insignificant one.

Of course, an absence of external loans – foreign loans which created the possibility of the formation of foreign assets of Canadian banks and the influx of gold – would have accelerated the onset of the crisis in the economic conjuncture of Canada.

According to the theory of automatic regulation of the balance, the export of gold from England to Canada was the cause of a decrease of prices in England and of the rise of prices in Canada, which, in its turn, would have led to increased exports of commodities from England to Canada. Meanwhile, as Viner himself says, Canada's balance of trade with England remained active, while the passivity of Canada's balance of trade grew in relation to the United States.

2. The theory of the transfer of purchasing power

[776] Marx 1987b, p. 417.

Angell in his work[777] points to the existence of two theories – the theory of automatic self-regulation of the balance of payments through the influence of the movement of gold on prices and the balance of trade, and the theory which rejects the self-regulation of the balance and assumes that the country's gold reserves can be exhausted, if the ebb of gold is not discouraged by methods of interest rate or currency policy.

The first theory, if interpreted in the literal sense and applied to a short time period, is rejected, in the opinion of Angell, now even by the orthodox English and American economists.

But at the same time Angell believes, that 'the hypothesis which underlay the classical doctrine itself – the hypothesis that the equilibrium of the balance of payments is in some way self-restoring – seems to me fundamentally sound'.[778]

To explain the process of the restoration of the equilibrium of the balance of payments Angell gives the example of capital export and analyses its impact on a country receiving, as well as on one providing credit. Reception of a loan creates an increase of bills of exchange, traced by borrowers to the creditor country. The discounting of these bills of exchange increases the general volume of purchasing power in circulation – the cash money and deposits.

In the credit-providing country the demand will increase for assets [*devizy*, bills of exchange] of the borrower-country. Buying these assets leads to a corresponding reduction of the purchasing power in circulation – bank deposits or cash money. The increase of demand can lead to an increase of the supply of bills of exchange.

In the first turn, the increase of demand for foreign bills of exchange will increase their price, which will cause the issuance of financial bills of exchange and will promote an increase of the quantity and sums of exported commodities, and reduce the quantity and sums of imported commodities. However, the author notes, with gold currencies the fluctuations in exchange rates are insufficient for an impact on prices of commodities, but their influence on the movement of securities can be more significant.

In the second turn, the reduction of the sums of foreign assets will cause difficulties for bankers who have urgent obligations abroad, and insofar as they will not be able to buy assets at a normal price, they will export gold. This movement of gold will occur regardless of gold movement caused by the state of the exchange rate. (It is not clear why the author thinks that the export of gold by bankers occurs regardless of gold movement caused by the state of exchange rates.)

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[777] Angell 1926.
[778] Angell 1926, p. 401.

In the third turn, if the disturbance of the balance of payments is significant, there occurs an increase of the discount rate in the creditor country.

However, these methods of influencing the currency market have a limited character. They are insufficient for the explanation of the process of adapting the balance of payments to longer and more significant disturbances. 'This explanation lies in the direct effects produced by the decline in the total volume of purchasing power itself'.[779] If this decline is significant and long-term, then its reaction on prices is inevitable, although this process can go on for a number of months. The decrease of purchasing power occurs, in the first turn, at the expense of persons buying foreign assets, since they will have less means in their homeland.

This depressive influence will spread and will affect the general price level: 'The change in prices may also be accelerated in so far as the metallic reserves and long-term security holdings of the banks have been diminished by the exchange-market situation, and in so far as discount rates have been raised'.[780] However, the influence of these factors depends on the given stage of the economic cycle. In the upward period, these factors will exert their influence, but in the period of depression, their significance is unlikely to manifest.

Angell says that the price reduction should not be absolute, but merely relative to the normal level, and that the process of price reduction will not be the same for all commodities. On the prices of imported commodities, determined by the world market, this trend, if reflected at all, is very weak. The pices for commodities of domestic consumption will go down most, and exported commodities will occupy a middle place.

A change in prices leads to a change in the balance of trade, and this will continue until such changes are sufficient to stop and correct the initial disequilibrium of the balance of payments.

Angell says that there is an analogy between his position and classical theory, but the classical theory put forward the proposition about the direct influence of the movement of gold on prices, while the doctrine, stated by Angell, considers the movement of gold as a phenomenon of a short-term character and is based on the influence exerted by significant changes in the relation between demand and supply on transferable bills of exchange for the total volume of purchasing power in circulation.

The central position, put forward by Angell, is the thesis about the influence of capital export on the reduction of the purchasing power in the credit-providing country, and of [the

[779] Angell 1926, p. 407.
[780] Ibid.

influence of] the import of capitals on its rise in the country receiving loans, and the effect of the change of purchasing power on the commodity prices.

Angell, like Taussig, while making the reservation about the possibility of a slow-downed process of adaptation of the balance of trade under a disequilibrium of the balance of payments, continues to stand on the position of the self-regulation of the balance of payments.

The Swedish economist Ohlin subjects the orthodox theory to critique. He indicates, that the basic premise of Ricardo about the determination of the value of commodities by labour of inequivalent workers rests on assumptions about a uniform ratio of capital and labour in all branches of production, about a constant relation between the wages for various categories of workers and on the elimination of the effect of rent. According to Ohlin's opinion, these assumptions do not correspond with reality and it is necessary to consider the relation between prices of commodities, and not between quantities of labour expended on production.

(Ohlin in this matter makes the usual mistake for bourgeoisie economists, mixing value and price of commodities.)

Ricardo grounds international trade by the law about the relative labour value of commodities in different countries, while in the opinion of Ohlin one must start from prices, from the monetary form of commodities in different countries. But, criticising Ricardo's theory on that matter, Ohlin remains committed to the theory of the self-regulation of the balance of payments. His views on the adjustment mechanism of the balance of payments Ohlin sums up as follows:

> [T]he rise in foreign exchanges tends, although probably with little effect, to retard imports and stimulate exports. Much more important are the international short-term capital transactions of various sorts which are brought into play because of the chances to gain from a future drop in the foreign exchange rates and from international interest differences. When these transactions prove insufficient, the upper gold point is reached, and gold movements lead to greater interest differences. At the same time the risk in exchange speculation is reduced, since the rates cannot rise further (in case of gold currencies), and capital movements therefore tend to increase. All these reactions involve changes in the volume of credit and of buying power, whereby imports are restricted and exports to some extent increased. [781]

[781] Ohlin 1933, p. 394.

Ohlin emphasises the importance of changes of purchasing power in different countries for the adjustment mechanism of the balance of payments. 'First of all it should be observed that there is an original and prior change in buying power, a monetary transfer *before* the real transfer of goods and services, just as in the domestic case. This *monetary* transfer is the direct and indirect cause of the readjustment involved in the *real* transfer'.[782]

Ohlin, like other economists, regards the process of adaptation of the balance of trade as the result of the conclusion of loans. The provision of a loan causes immediate purchases of the borrowing country in the country lending. Persons, receiving the loan, transfer the remainder of unused currency [assets] to their central bank. The increase of non-currency [foreign exchange] reserves leads to the issuance of banknotes or the growth of deposits.

This expansion of money circulation causes a rise of commodity prices. At the same time, the purchases made to the amount of the obtained loans causes a second wave of rise of prices, since it spreads to a number of commodities. The third wave is caused by the change of credit policy, since the central bank expands credit operations on the basis of increased reserves.

The opposite process occurs in the country exporting capital. Its foreign exchange reserves, as well as the cash volume of the loan decreases, [and] in second instance the decrease of purchasing power occurs in a way analogous to the increase of purchasing power in the country receiving loans. This decrease of purchasing power should be reflected on prices. Production expands in export-related industries and declines in production for domestic consumption.

As a result of these opposing processes there is an increase of imports to the country receiving the loans, and exports expand from the country that provides the credit.

The change of prices in different countries depends on the change of demand for individual commodities. We saw, that Mill, and after him also Taussig, believe that the borrowing country has a double benefit, since it will receive commodities on credit and at relatively cheaper prices. Ohlin points out that there can be cases where the demand of country A for commodities in country B may be so great that the prices of exported commodities in the country B may relatively rise in comparison to the export prices in country A and, consequently, the crediting country receives a corresponding benefit, but he considers these cases relatively rare.

We see that Ohlin, in general, follows Angell. The main difference between them is basically that Ohlin regards the whole question on prices and on adjustment not only on the level of

[782] Ohlin 1933, p. 411.

international exchange, but also on the level of relations between separate areas in one and the same country, believing, that these phenomena in essence are one and the same, [and] that relations between countries are more complicated only by the difference of money systems. In addition, Ohlin stresses more than Angell the significance of the transfer of purchasing power from one country to another, as a factor in the adjustment of the balance of payments. The purchasing power of a country, according to Ohlin's definition, is

> the aggregate of money incomes and the flow of liquid capital during a certain period of time, increased by (1) the income drawn from the ownership in productive factors abroad, (2) new borrowings abroad, and (3) credit inflation; and reduced by (1) the incomes which people living abroad draw from productive factors in this country, (2) new lendings to other countries, and (3) credit deflation.[783]

Ohlin notes that his depiction of the adjustment process of the balance of payments is different from the orthodox scheme, since the movement of gold in his conception does not take a central place.

In most cases the movement of gold is not the initial part of the restoration mechanism of the equilibrium of the balance of payments.

The movement of gold may prove to have no affect on the credit policy of central banks. Ohlin gives the example of the United States, pointing out, that a significant inflow of gold into the United States in the post-war period was not reflected in an increase of credit operations of the Federal Reserve system. Finally, the movement of the gold is often not the cause of changes in the credit policy of banks, but on the contrary, is explained by this policy and serve the objective of bringing the reserves to the appropriate norm. Thus we see that Ohlin, like Angell, renounces the quantity theory and highlights more sharply the secondary role of gold in the process of restoration of the equilibrium of the balance of payments, nevertheless he too remains faithful to the thesis about the self-regulation of the balance of payments.

Ohlin recognises that '[a] complete description of the process of readjustment must consider also the movement of the business cycle', but he, however, believes that the analysis of this moment goes beyond the frame of his work, and limits himself only to the remark, that '[d]uring periods of improving business conditions the transfer of productive factors from

[783] Ohlin 1933, p. 378.

one industry to another will be relatively easy, whereas the readjustment during times of declining business will create greater difficulties'.[784]

It is characteristic that in the work, written in 1931, in the period of crisis, Ohlin ignores the lessons of the crisis for the theory of the adjustment of the balance of payments and indicates that he had little to deal with the influence of monopolistic phenomena and with problems related to the business cycle.

Nurkse[785] adjoins Ohlin's views on the question of the adjustment mechanism of the balance of payments during credit operations.

Nurkse believes that the adjustment mechanism of the balance of payments is explained, mainly, by the transfer of purchasing power, insofar as this transfer is directed to domestic commodities and the redistribution of productive forces becomes more difficult, then the movement of gold sets in, which causes a corresponding change of prices and in the balance of trade.

The Danish economist Iversen[786] adheres to Ohlin's views and develops the proposition on the transfer of purchasing power under [or during] export of capital. Iversen first examines the process of capital export within the borders of one country.[787] If [a borrower in] California, for example, contracts a loan in New York, this will lead to an increase of deposits in Californian banks, which in its turn will increase their correspondent accounts in New York banks. Purchasing power will decline in New York and will increase in California, but this will be only the monetary transfer. The real transfer can only happen in the form of commodities or services. Part of the loan received by California will be used for purchases in New York, part – on Californian commodities, which otherwise would have been exported to New York. Thus there occurs a real transfer of a determined part of the loan. But part of the loan will be used in California to buy local products, and in New York a corresponding reduction in demand occurs. In this case an adaptation of production to the change of demand will be necessary. In California there will be an increase of demand for local products, labour forces, there will be a rise in wages, in commodity prices, there occurs a diversion of productive factors from exporting industries to the corresponding industries for the production of local commodities and an expansion of imports. In New York there will be the reverse process – the industries that produce local commodities will experience depression, which will lead to a diversion of productive factors from these industries to the

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[784] Ohlin 1933, p. 417.
[785] Nurkse 1935.
[786] Iversen 1935.
[787] Iversen 1935, pp. 458 and following. [Frej's phrase 'capital export' here within a country does not make sense. What Iversen wrote, and Frej evidently means, is 'capital movement'.]

exporting industries, even an emigration of capital to California is possible. The cheaper cost of living in New York will cause increased tourism to New York.

All these processes will continue until the point when there will be no [more] real transfer, until the entire amount of capital is attracted to California in the form of commodities, services. All these processes require a long time, and during this period Californian banks, leaving the proceeds from loans in New York banks, provide the latter short-term loans.

Turning to the depiction of the adaptation process of the balance of payments with the export of capital, from one country to another, Iversen believes that what is new in this question is the currency factor. In order that, for example Copenhagen, with provision of a loan in London, be able to use part of the loan to purchase local Danish commodities, the conversion is necessary of pounds sterling to Danish krone. For this the creation of speculative demand for pounds is necessary.

Here, in contrast to the transfer within one country, the question arises: at what exchange rate will there emerge an additional demand for pounds sterling? This depends on the organisation of the monetary system. With a gold standard, the exchange rates will fluctuate within the gold points. With a paper standard, one can talk about 'commodity points', that is such exchange rates at which additional export of commodities becomes profitable. One can talk about 'loan points', that is exchange rates at which short-term credit operations will occur. Let us suppose that sterling will be sold to the Danish central bank, as a result, its sterling holdings will increase, on the one hand, and on the other – deposits or bank notes. In Denmark there will be credit expansion, and in England – credit squeeze; in England the exports will increase, and in Denmark the imports. The additional foreign exchange reserves of the Danish bank will be exhausted, and its deposits and banknotes will be reduced accordingly. The real transfer takes place.

As in the previous case, the policy of banks plays a huge role. It can facilitate or hinder the adaptation process of the balance of payments. The same role can be played also by customs policy. If a country that imports capital will facilitate commodity exports, it will slow the process of adaptation; if it increases the customs duties, it will complicate the process of real transfer and the burden of the adaptation of the balance of payments will lie on the country that lends.[788]

Drawing a distinction between the initial transfer in monetary form and the final [real] one in the form of commodities or services, Iversen says that the monetary transfer can be made through short-term loans in various forms or through gold.

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[788] [A reminder again that Frej here outlines the argument, not his affirmation of it.]

In modern conditions the role of the movement of gold in the balance of payments is relatively insignificant, and short-term credit plays a much greater role. 'The essential function of short-term credit operations is to postpone the real transfer [of goods and services] and make it more gradual'.[789]

3. Combination of the neoclassical theory and the theory of transfer of purchasing power

In the work of professor Harry Dexter White (belonging to the school of Taussig), devoted to an analysis of the balance of payments of France for the years 1880–1913, we encounter the attempt to combine the theories of Taussig, on the one hand, and Angell and Ohlin, on the other.[790]

The analysis of France's balance of payments leads him to the conclusion that the countries that received loans from France did not spend a more or less significant part of their loans in France, that the change in prices as factor of adaptation did not play such an important role in France as neoclassical theory suggests, that in France there is no close connection between [precious] metal movements, bank reserves and the discount rate and changes in the volume of credit and monetary circulation, that it is possible 'that both capital exports and merchandise movements were concomitant effects of changes in business activity'.[791]

In general the author concludes that not one of these forces was the sole instrument in the restoriation of the equilibrium of France's balance of payments and that neoclassical theory does not provide a full explanation for the process of adaptation.

A comprehensive theory should, in his opinion, include the following factors:

1) Movements of the exchange rates. However, this factor is insignificant for trade between countries with a gold currency.

2) Changes in demand for commodities, caused by the transfer of purchasing power.

3) Changes in commoditiy prices under the influence of the movement of gold. Although this instrument will always be able to restore the equilibrium over a long course of time, its effect

[789] Iversen 1935, p. 522 [we found this on p. 46, paraphrased].
[790] It should be noted that in his latest work Viner too considers it necessary to combine Taussig and Ohlin. He points out that not only changes in prices, but also the relative change in demand resulting from the transfer of means of payment, acts in the direction of restoration of the disturbed equilibrium of the balance of payments (see Viner 1937, p. 333).
[791] White 1933, p. 305.

is often slow, that other forces bring about the equilibrium until the time when the movement of gold has an influence on the volume of credit, and thus on prices.

4) Fluctuations in the pace of capital export. The disturbance of the equilibrium, caused by a sudden increase or decrease in exports or imports, can be partially corrected by changes of capital export – for example, with a crop failure the import of commodities increases, but at the same time the crop failure will affect a reduction of the savings and thereby the capital export.

5) The cyclical movement of business activity. ‘As in the case of unusual crop conditions so in the case of changing business conditions disequilibrium [in the balance of payments] may be caused and partially corrected by increasing or decreasing business activity'.[792] A rapidly developing country can, for example, increase imports and thereby cause a disturbance of the equilibrium, but it can at the same time contract loans abroad and these loans will partially correct the disequilibrium.

'It must be emphasized, – White writes, – that all these influences function at the same time, but with varying degrees of effectiveness. Different monetary and banking systems, different money habits, discount policies, the nature of the country's economy, its type of exports and imports, all cause differences in the relative effectiveness of each of the methods'.[793]

We see that White, combining the two basic theories, upholds the automatic regulation of the balance of payments and believes, that the movement of gold will eventually restore the equilibrium and [that] other forces are active only because the influence of gold movement on prices manifests itself only over a long period of time.[794] White considers the role of capital movements, the discount rate, to be insignificant, indicating that 'short-time movements in funds or speculation in [currency] exchange can only postpone the operation of adjustment of such disequilibrium; they do not constitute a means of adjustment'.[795]

The German economist Meyer proceeds from the premise that the country's balance of payments at any given moment is equal, that the balance of payments does not have a saldo [or net]. Therefore, the problem, in his opinion, is not to reveal which forces restore the disturbed equilibrium of the balance of payments, but to identify 'the process that constantly takes cares that the demands and obligations – the not yet fulfilled, aligned articles – were in equilibrium'.[796]

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[792]White 1933, p. 309.
[793]White 1933, p. 310.
[794] [See White 1933, pp. 308–9.]
[795]White 1933, p. 9.
[796]Meyer 1938, p. 3.

This thesis about a permanent equilibrium of the balance of payments Meyer extends to the interrelation of countries with paper currency, as well as gold currency.

Meyer blends the position of defenders of the transfer of purchasing power with Ricardo's view on the causes for the export of gold.

According to Meyer, in case of a crop failure, for example, in a country with paper currency, the prices for wheat and its imports will rise, but at the same time, the demand for other commodities will decrease, their prices will decrease, as a result the import of some commodities will decrease and the export of others will increase. Meyer concedes that a complete equilibrium in this way will not be restored, but then the mechanism of exchange rates kicks in: a decrease in the exchange rate of the country's currency boosts exports and reduces imports.

As for the equilibrium of the balance of payments under a gold currency, then insofar as price changes do not bring forth the equilibrium of the balance of trade and an export of gold occurs, then, according to Meyer, 'the export of gold is not the result of the passivity of the balance of trade, [but] on the contrary, the passivity of the balance of trade is the result of the export of gold'.[797]

Gold, which was intended for the purchase of wheat in the country experiencing the crop failure, will go to another country to buy wheat there at a cheaper price.

The outflow of gold from one country leads to the reduction in the sum of excess gold, and its flow into the other country leads to the formation of excess gold there: from the first country the flow of gold abroad for purchases of commodities will decrease, while in the other country it [the flow of gold abroad] will increase, as a result of which the flow of gold from the first country turns into a flow of commodities, which, in the end, will be sufficient for the payment of imported commodities.

The mistake of the classical school, according to Meyer, is that this school believed that the outflow of gold would cause phenomena that would lead to the return of gold to the given country.

In reality 'the excess of imports, that a given country in the beginning could admit because it made the surplus of gold an object of export, is paid in the end by the export of gold'.[798]

As for adjustment of the balance of payments with provision of loans, then in this the case Meyer believes that the loans, in the long run, will be paid for by commodities.

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[797]Meyer 1938, p. 86.
[798]Meyer 1938, p. 93.

All these processes of maintaining and restoring the equilibrium of the balance of payments occur only when banks conduct the appropriate policy, that is with an influx of gold increase the monetary circulation, and with an outflow – reduce it.
Violation of these rules disturbs the equilibrium process of the balance of payments.

4. Reparation payments and the adjustment of the balance of payments

The academic question about the adjustment mechanism of the balance of payment took a passionate character in the discussion of the question about the ability of Germany to settle the reparation payments.[799]
The French, relying on the classical theory, argued that insofar as the German government will gather from the population the sums necessary to settle the reparation payments, the mechanism of self-regulation of the balance of payments will lead to an increase of the export of commodities from Germany, which will give the resources for the transfer of reparation payments abroad.
The French economist and prominent treasury official Rueff[800] proceeds from the principle of preservation of purchasing power, which, in his opinion, consists of the point that purchasing power due to various economic transformations never disappears nor is created, but remains stable. If the state collects taxes from its population for the settlement of reparation payments, it will lower its purchase capacity, but by disbursing the reparation payments to other countries, it will give them this purchasing power. Debtors cannot lose more than what they must pay in the quality of reparations. Therefore, according to Rueff's opinion, the reparation question is exclusively a budgetary, and not a transfer problem.
The Swedish economist Ohlin, upholding the French position, developed the proposition on the mechanical regulation of the balance of payments, believing, that the influence of reparation payments on the balance of payments is similar to the impact of loans.

[799]['The transfer problem relates to the general theory of international payments, developed in classical political economy. Nothing characterises the decline of bourgeoisie economic thought better than the fact that this theory is now being "invented" again, starting from the alphabet' (Dashkovsky 1925b, pp. 26–7). The transfer problem is the subject of chapter two of Dashkovsky's book (finished writing February 1925). On the dominant Western narrative of German reparations (after both world wars) and their actual payment, see historian Anne Lacroix-Riz.] Rueff 1927, 1928.
[800]Ohlin 1929a.

Ohlin pointed out that the experience of Germany gives an example of the adaptation of the balance of trade to credit operations, since the inflow of foreign capital into Germany was accompanied by a passive balance of trade.[801]

The position of Rueff and Ohlin was shared by some German economists, for example, Eucken and Röpke, who stressed the significance of the discount and currency policy of the Reichsbank for the regulation of the balance of payments. Eucken pointed out that the Reparations Agent-General may have an influence on the rise of the interest rate and credit squeeze from the side of the Reichsbank and these measures will lead to a decline of prices and an increase of exports from Germany.[802]

Röpke believes that the financial-political problem is in all cases paramount and the central problem of the reparation question. If the state succeeds to resolve the financial-political side of the problem, that is ensure the conduct of production at the present volume and the preservation of the minimum consumption of the population, the transfer problem will be automatically resolved.[803]

The same position was shared also by Hollander, [Melchior] Palyi, [Alfred] Lansburgh and others.

The opposite position was taken by the German economist Liefmann, who made a fundamental difference between the transfer of reparation payments and credit transactions.[804]

Liefmann rejected the possibility of a transfer of reparation payments for a more or less long-extended period.

A middle position between that of the French, who believed that there is no transfer problem, and that of Liefmann, who argued that reparation payments are not possible in the course of a long period and that the disbursement of reparations would harm the countries who are their recipients, was occupied by the English economists – Keynes, Pigou and others.

Keynes said that the resolution of the transfer problem could happen not through the giving up of commodities, at present consumed by the population in Germany (bread, sugar, cotton, and so on) for foreign consumers, but through directing the factors of production of Germany to the export domain.[805]

In order for Germany to be able to strengthen its exports, it should lower the cost of its production in comparison with the value in other countries. Therefore the solution of the

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[801]Eucken 1925.
[802]Röpke 1925, p. 69.
[803]Liefmann 1925.
[804]Keynes 1929a.
[805] [A summary of the reparations debate also in chapter sixteen of Hudson 2009.]

transfer problem requires, first of all, a decrease in workers' wages in Germany compared with the wages of workers of other countries. However, a decrease in wages may not be able to solve the problem transfer, if the production, for example [building] construction or personal services, cannot be exported, if the world demand for German commodities proves to be inelastic, if the price decrease will not cause a significant increase of exports, since the total value of exports turns out to be, due to the decrease of prices, less than the previous [value], if Germany's competitors lower the wages of their workers in order to fight with German exports.[806]

Keynes believed that historically the export of capital adapts to the balance of trade, [but] in the case with the German reparations [one] attempts to chart the size of the payments and adapt the balance of trade to it [the reparations sum].

At any given moment the economic structure of the given country, when compared with the economic structure of its neighbours, determines a certain 'natural' level of exports, and to cause a significant change in this level through determined measures is extremely difficult.

Between Keynes, on the one hand, and Ohlin and Rueff, on the other, there was a polemic, placed in the *The Economic Journal*.[807]

Responding to Rueff, Keynes said that he did not agree with the new principle of preservation of the purchasing power of Rueff; when paying debt, the loss of the purchasing power of the population of the debtor country is in fact greater than the sum of debt.

Keynes said that he does not proclaim the impossibility of the process of adaptation, but only emphasises its difficulty. He does not think that it is impossible to lower wages in Germany, but that it is politically difficult, in particular, if the possibility of lowering the exchange rate is excluded.

Keynes indicated that there are historical precedents more relevant to the German case. 'When the debt is owed in terms of the home currency, the relief comes by depreciating the currency; when it is owed in terms of a foreign currency, the relief comes by default. The majority of countries which were heavy borrowers abroad during the nineteenth century found themselves at one time or another in the same sort of difficulty as that which I foresee for Germany, though on a much smaller scale, and they frequently escaped from it by defaulting more or less'.[808]

Responding to Ohlin, Keynes admitted that he did not attach great importance in this question to changing conditions on the demand side. If Germany was in a position to export

[806]Rueff 1929, Ohlin 1929b.
[807]Keynes 1929b, p. 406.
[808]Wicksell 1936 [1898], p. 100.

large quantities of gold, then it could have an appreciable effect on world prices, but Germany is not able to do this.

5. Change of interest rate and adjustment of the balance of payments

If Goschen considered the discount policy as a means of influence on the movement of capital, the modern bourgeoisie economists put forward, mainly, the moment of the influence of discount rates on commodity prices.

The question about the influence of discount rates on commodity prices was already voiced by Wicksell in his work *Interest and Prices* published in 1898.

Wicksell believed that, 'so long as the situation in the market remains unaltered, any permanent fall, no matter how small, in the rate of interest maintained by the credit institutions will cause the general level of prices to rise to an unlimited extent in a continuous and more or less uniform manner.

And in the same way, a rise in the rate of interest, no matter how small, will, if maintained for sufficiently long, result in a continuous and unlimited fall in the prices of all goods and services'.[809] Based on this proposition about the influence of the interest rate on prices, Wicksell comes to the belief about the possibility of price stabilisation.

This proposition after the [first world] war is advanced by a whole group of economists, led by Cassel, Keynes, Fisher, Hawtrey and others.

Here we will dwell only on the views of bourgeois economists about the influence of changes in the discount rate on the balance of payments.

The first question to be analysed, when speaking about the influence of the discount rate on the balance of payments, is the question about the influence of a change of the central bank's discount rate on the market rate, on the rate of the banks.

Bagehot in his *Lombard Street*[810] indicated that the market follows the rate of the central bank, since the funds of other banks, aside from the Bank of England, were insufficient to meet the need for credit. This situation changed already before the First World War.

The English economist Withers points out that Lombard Street [that is the banking sector] often ignores the rate of the Bank of England, since it does not needs its credit.

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[809]Bagehot 1873.
[810]Lawrence 1928, p. 326.

An even fiercer position is taken by the American economist Lawrence. He says that in order for the change of the discount rate of the central bank to influence the rate of the banks, it is necessary that the use of the central bank's credit played a significant role in the activities of the banks. Analysing the banking costs of national banks of the United States over the period 1918–26, he points out that the outlay on rediscounting amounted to only 5.44 per cent of all expenditure of the banks, and remarks, that it is inconceivable in what manner an element, constituting only 5.44% of the value of services, can determine the price of these services. Lawrence comes to the conclusion that 'the interest rate is not controlled by the central bank'.[811]

The second question: what prerequisites are necessary so that the discount policy can trigger a capital movement from abroad?

Mühlenfels remarks that the difference in interest rates should compensate the premium for risk. Therefore in the period of crises only a highly significant rise of the discount rate can call forth an influx of capital.

But on the other hand, the increase of the discount rate is a barometer of the economic conjuncture and therefore a very high rate cannot give desirable results.

The impact of the discount rate depends on whether or not countries with an active balance of payments provide loans. 'If other countries – on the grounds of security or due to strong mistrust – prefer, instead of exporting capital, to draw gold to themselves [and hoard it], then the whole world economy will end up in a disorderly state [*Unordnung*].[812]

Before the First World War difficulties of this kind were largely avoided because France with its favourable balance of payments and credit position, with its calm course of economic life and with its constant willingness to provide short-term loans abroad was a reservoir, from which funds could be drawn to overcome the temporary disequilibrium of the balance of payments of other countries.

After the war the situation changes, the United States cannot replace France. Therefore, the influence of the discount rate depends on how much credit claims the country has on other countries.

As for the influence of the discount rate on the market of long-term capital, – this is a process of a long-term nature.

[811]Mühlenfels 1933, pp. 99–100.
[812]Hawtrey 1919, p. 124.

Thus, Mühlenfels concludes that the central bank is forced to resort, in addition to discount policy, to other measures for levelling the balance of payments – prohibition of the issuance of foreign securities, and so on.

Let us now turn to the question about the influence of a change of the discount rate on prices. The fundamental principle of supporters of the regulation of balance of payments through change of the discount rate can be boiled down to the following propositions.

Under an increase of the interest rate the entrepreneur, reckoning with the difficulty involved in transferring expenses of the increased rate on prices, since this would namely cause a reduction in turnover, tries to lower the price of purchased commodities – raw materials, fabrics, and so on.

On the other hand, the rise in the cost of credit lowers entrepreneurial profit, reduces the demand for credit, which means a decrease of purchasing power, a decrease of demand on commodities.

Thus, an increase of the interest rate, causing a reduction of demand, leads to the decline of commodity prices, makes the balance of payments active.

The lowering of the interest rate causes the reverse picture – a fall of the cost of production, a willingness to raise prices for materials, increased demand for credit, increased purchasing power, rise of prices and, consequently, an increase of the passivity of the balance of trade.

Hawtrey, for example, points out that

> [i]t may seem mysterious that so slight a change as an increase in the rate of interest on temporary loans by 1 or 2 per cent, should have such far-reaching results. The explanation is in part to be found in the immediate reaction on the merchants, who are the economic leaders. But the effect is very much intensified by the fact that a contraction of credit starts a fall in the prices of commodities.[813]

Professor Robbins, following Wicksell, remarked that a change of the discount rate has the greatest impact on prices of slowly consumed commodities – houses, capital instruments and so on. As an example, he points to a speculative builder. A fall of the interest rate from 6 per cent to 5 per cent under a given income from a certain collection of materials increases the value of this property, approximately, from £1000 to £1200, the profitability of the

[813]['Suppose he has been paying £1000 for a certain collection of materials. Interest on that at 6 per cent is £60. When the rate falls to 5 per cent and the price of existing house property rises accordingly, he will be making an increased profit until the price rises to something a little less than £1200. Clearly it will pay to borrow more' (Robbins 1934, p. 36).]

construction sharply increases, and it becomes profitable to borrow more.[814] As a result there will be a 'boom' in the construction industry and the industry that produces raw materials. This provision is relevant not only to land and houses, but also to all kinds of 'capital goods'. 'The longer-lived the capital instrument, or the greater its distance from consumption, the more its value is affected by the change in the rate of interest. The shorter-lived it is, or the less its distance from consumption, the less it is affected'.[815]

This argument at its basis rests on the quantity theory of money and in its opponents we find a critique of these propositions.

Tooke pointed out that '[a] reduced rate of interest has no necessary tendency to raise the prices of commodities. On the contrary, it is a cause of diminished cost of production, and consequently of cheapness'.[816]

In the post-war literature these arguments are developed by opponents of the theory of price stabilisation.

Somary says that the effect of increasing interest on the fall of prices is affected in trade with commodities only under a strong increase of the interest rate.

It is only necessary to imagine, Somary writes, that a rise of the interest rate by 1 per cent signifies under a three-month turnover a difference only of 0.25 per cent.[817]

A detailed analysis of this question was put forward by professor Mühlenfels. He said that interest rates affect prices and the balance of trade in two ways – through the change of demand for commodities and through the change of their value. The rise of the discount rate has the greatest impact on speculative commodities, since with the increase of the interest rate merchants will refrain from new purchases. However, this influence will be less to the extent that the stock of the given commodities will be less significant, which usually occurs with an upward conjuncture.

More complex is the impact of an increase of the discount rate on the value of commodities, since in this case the interest is part of the total costs of production. Entrepreneurs, paying an increased rate for credit, will try to shift this increase onto suppliers of raw materials or onto buyers. In the contemporary capitalist economy the monopolistic conditions of the supply of raw materials make it difficult to decrease prices via pressure of entrepreneurs on the suppliers.

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[814]Robbins 1934, p. 37.
[815]Tooke 1844, p. 124.
[816]Somary 1915.
[817]Mühlenfels 1933, p. 118.

The increase of the discount rate is reflected differently on different sectors: stronger on trade and speculation than on industry and agriculture. The influence of the rise of the rate on prices depends on the elasticity of supply and demand. Therefore it is difficult to foresee the possible impact of an increase of the rate on the prices of individual commodities.

As for the influence of monopoly on the enhancement of the balance of trade, the author points out that the monopolisation of certain branches of the national economy, especially raw materials, does not exclude the influence of discount policy on the balance of trade, since also under monopolies the increase of the discount rate acts in the direction of a reduction of imports and an expansion of exports. But in the form of a rule, the expansion of exports is more dependent on the policy of monopolistic organisations.

The author comes to the conclusion that the increase of the discount rate has a complex effect on the balance of payments, which cannot be laid out in a simple scheme. 'The obstacles which the measures of interest policy encounter, are revealed in full scope, when the measures are applied to combat a prolonged passive state of the balance of payments. In this case it is found that a hike [*schraube*: tightening] of the discount rate influences the commodity turnover between countries through depression and crisis, through a fall of prices, of profits, through unemployment, that is through a path full of clashes, obstacles and possibilities of loss [*Verlustmöglichkeiten*]'.[818]

Tismer's special work is dedicated to the question of the impact of discount policy on prices under monopoly capitalism.[819]

The impact of cartels on the adjustment of balance o payments is reflected in two directions – on their price policy in relation to raw materials and semi-finished products, processed by non-cartelised exporting industries, and on their own export policy.

Cartels introduce a change in the adjustment process of the balance of payments. Despite the lower demand, cartels can consider it profitable for themselves to keep prices on the same level. In this situation the process of lowering prices of non-cartelised materials should intensify.

Concerning the impact of the 1930 crisis on the prices of German cartels, the author says that 'in any case the price adaptation was not caused by the interest rate of the Reichsbank'.[820]

Focusing on the question of the export policy of the cartels themselves, the author notes the difference of internal and external prices, dumping policy. Preservation of high internal monopoly prices allow to lower export prices and increase supply of exported commodities,

[818]Tismer 1932.
[819]Tismer 1932 [no page reference].
[820]Tismer 1932, p. 115.

but export earnings grow slower than the mass of exported commodities. Insofar as the monopolisation of the internal market leads to a decline of world prices, the situation of the processing industry, working for exports, becomes even worse, since their foreign competitors enjoy lower prices.

'While cartels with their policy of domestic prices worsen the conditions for international trade and make the adaptation process more difficult, they use monopolisation of the domestic market for their own export policy. The problem of price adaptation is solved by them independent of the discount policy of the central bank'.[821] Duties, monopoly prices, dumping, export premiums constitute a whole system. Premium payments partially replace the absence of elasticity of the elements of value. The implementation of these measures completely breaks the link between the internally regulated prices and the competitive prices on the external markets and, thus, completely arrests the significance of the discount policy. For the long process of equalisation of the balance of payments the establishment of premiums and duties or import quota through international agreements becomes more important than the discount policy.

The adjustment function of the interest rate policy is replaced by an export and premium policy, a policy of duties. 'Not the discount policy, but the trade and customs policy, the policy of cartels. the state policy of wages, subsidies and placement of public orders, the policy of capital export and, finally, the tax policy are the decisive factors for price regulation'.[822]

All these circumstances force the central banks, if they want to influence prices, to take part in this whole intricate complex.

Tismer quotes an excerpt from the report of the Reichsbank for 1925, a period when the government, based on currency considerations, strove to lower prices. 'The Directorate of the Reichsbank fully joins the government's measures and intentions with respect to the reduction of prices and will provide it all assistance in its work. The Reichsbank's credit policy will pay special attention to the growth of cartels and the conclusion of conventions on prices and will take, if necessary, appropriate measures'.[823]

6. Theories that reject the automatic regulation of the balance of payments

[821]Tismer 1932, p. 126.
[822]Tismer 1932, p. 127.
[823]Aftalion 1932, p. 9.

We pointed out that the classical school was criticised before the war by a number of economists, in particular French economists.

Nogaro in his work *La monnaie* published in 1924, repeats the arguments put forward by him against the quantity theory in earlier works. The harshest criticism of the thesis on uniform distribution of gold between individual countries comes from Aftalion.[824]

Aftalion points out that, according to the classics, 'the harmony of Providence tightly connects the movement of gold and commodity prices and constantly restores the triple equilibrium: balance of payment, prices and world distribution of gold'.[825]

Aftalion notes that the quantity theory on one side, establishes a link between commodity prices and the gold volume in a given country, on the other, between international prices and world production of gold.

The national and international aspect of the quantity theory can lead to a contradiction. But supporters of the classical theory resolve this contradiction by the thesis about the equilibrium in the world distribution of gold.

He criticises the basic premises of the law on uniform distribution of gold in the following way: 1) the incorrectness of the quantity theory of money logically conditions also the erroneousness of the law, built on this theory, about the equilibrium in the world distribution of gold; 2) the difference in commodity prices of individual countries in reality can align also without the movement of gold, thanks to moments of a psychological order; 3)

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[824]Ibid.

[825] [Aftalion's definition of *balance des comptes* runs counter to what Zvavich in 1928 named as its meaning in French. Aftalion understands it as the current account. His definition of balance of payments is in agreement with the modern definition. 'It is known that economists differ on the concept of the *balance des comptes*, particularly as to whether *new* foreign investments of capital should be included among its elements. I believe that they should be excluded, that they should only be included in another concept of the balance, [namely] in the balance of payments. The *balance des comptes* [current account] of a country should inform us about the *results* [our emphasis] of its economic relations with foreign countries, and tell us whether this results in an active or passive balance for this country. When new foreign investments of capital are included in the balance [of payments], the active or passive balance [net, clearance] disappears because capital movements are precisely, to a large extent, the counterpart of this balance. We are thus in the presence of a balance of payments in which assets and liabilities are exactly equalised. The *balance des comptes* for *a year* [our emphasis] includes the claims and debts between a country and foreign countries arising from the exchange of goods and services *in the year in question* [our emphasis]. Imports and exports of goods are included; sea freight and land transport in transit; expenditure of foreigners in the country or of nationals abroad; remittances of money from foreigners to the mother country; commissions of bankers and others. I also include the claims and debts resulting from operations previously carried out but giving rise to settlement, for interest or capital, *in the year in question*. I include them because they serve to constitute the net active or passive balance of *the year in question*.

I exclude from it only the new investments of capital, because these investments are usually precisely the consequence of the active or passive net of the *balance des comptes*, and [they] make it possible to shift [*permettent de passer]* from the *balance des comptes* [current account] which always presents an active or passive balance, to [*à*] the balance of payments which, in principle, is always in equilibrium. For the balance of payments, in fact, there can be no question of fearing that it will be in deficit or of ensuring that it will equalise. The balance of payments is always in an equilibrium because each of the transactions of the individuals, which constitutes it as the whole, must be settled [*réglée*]' (Aftalion 1932, pp. 43–4, our translation).]

the main presupposition of the classical theory is the thesis that gold is sent from countries in which it has less value, to countries in which it has more value. In reality the motion of gold depends more on the of movement of exchange rates, than the ratio of commodity prices.

At the present time instead of the thesis that a surplus of gold causes its outflow, as the old theory of automatic equilibrium assumes, it is more correct to set forth the thesis that gold attracts gold. An excess of gold is, particularly in periods of turmoil, a sign of the stability of the currency of the given country, which attracts foreign capital and causes a new rush of gold into this country.

Criticising the classical theory, Aftalion says that the establishment itself of the equilibrium of the balance of payments is not important, but how it is achieved. Aftalion distinguishes the following factors of gold movement: 1) the current account [*balance des comptes*; *raschetnyj balans*] (Aftalion distinguishes between the concepts of current account and balance of payments),[826] 2) the movement of capital, 3) the discount rate, 4) the psychological moment – trust in the given currency, causing an inflow or outflow of funds.[827] Having determined these factors of gold movement, Aftalion raises the question of whether they effect an equilibrium in the distribution of gold? The psychological factor, obviously, cannot be a moment of a balancing character. The inequality of the current account of individual countries is a long-term factor.

The discount rate may have some effect on the uniform distribution of the world gold reserves, but this impact is not guaranteed. The change of the discount rate may sometimes, on the contrary, strengthen the inequality in the world distribution of gold.

Inequality in the distribution of gold has always existed, but after the war it intensified.

Before the war, the main factor of inequality in the distribution of gold was the prolonged condition of activeness of the current account of some countries and the passivity of others. But there were also factors promoting the establishment of the equilibrium of the balance of payments. The main factor that mitigated inequality in the distribution of gold, was the movement of capital. After the conclusion of the war the political and economic instability and the breakdown of monetary systems not only prevents the advancement of credit of some countries to others, but also strengthens the uneven distribution of gold.

Dwelling on the influence of the uneven distribution of gold on prices, Aftalion indicates that 'while production of gold may affect prices through a change of income, it is doubtful that it

[826] [See Aftalion 1932, pp. 45–8.]
[827] Aftalion 1932 [no page reference].

could have such an essential importance to the alteration in the distribution of the world reserves of gold'.[828]

Aftalion, rejecting the quantity theory of money, rejects also the existence of the automatic mechanism that restores the equilibrium in the world distribution of gold. The movement of gold is determined by the condition of the balance of payments, and insofar as the factors of the balance of payments – the current account and the movement capital – do not lead to the restoration of the balance of payments, then there is also no equilibrium in the distribution of gold between countries.

Realising that the post-war period is characterised by an increase of the uneven distribution of gold, Aftalion does not see, however, the connection between this moment and the general crisis of the capitalist system, the connection between the uneven distribution of gold and the intensifying uneven development of the capitalist system in the period of the general crisis capitalism.

Therefore Aftalion says that 'in any case the national interests both of countries rich in gold and with a lack of gold, coincide. One and the other should desire a better distribution of the world gold reserves'.[829]

It should be noted that in his latest work Aftalion[830] develops propositions that are close to the theory of transfer of purchasing power. Aftalion first analyses the question on the adjustment of the current account and takes as starting position the thesis on the equality of national income [to the] value of national production.

This equality, according to the author, occurs under the condition that the given country is neither a creditor nor a debtor in relation to abroad. If the given country buys abroad more commodities than are sold, then the national income remaining for domestic purchases will be less [than] the value of national production. Lower domestic prices are the result. This decrease will lead to a strengthening of exports and thereby restore the equilibrium of the current account.

Aftalion differs from other adherents of the theory of transfer of purchasing power by the fact that he gives more importance to obstacles to the restoration of the equilibrium of the current account.

He points to monetary-, deposit-, currency inflation, as the main obstacles to the restoration of the equilibrium of the current account. Then he notes the influence of loans, the repatriation of capital, the use of foreign currency- and gold reserves. For example, the

[828]Aftalion 1932, p. 198.
[829]Aftalion 1937.
[830]Aftalion 1937, p. 453.

export of commodities can accompany the export of capital, and then the current account will be balanced. All these moments in the aggregate lead, according to Aftalion, to the absence of an automatic restoration of the current account. The current account is seldom in equilibrium.

Turning to the question on the adjustment of the balance of payments, Aftalion rejects its automaticity.

'Disturbances of the equilibrium are not corrected spontaneously, so that one can await with folded arms the restoration of the equilibrium. The will of people, their persistent efforts, enterprising spirit, courageous initiative must come to the rescue of the mechanism, that will be stalled without this. If one wants to restore the equilibrium, then one has to achieve it, one needs to merit it'.[831]

Rejecting the automatic restoration of the equilibrium of the balance of payments, Aftalion concedes the possibility of its restoration through appropriate policies.

The Japanese economist Kitamura emphasises the need in analysis of the transfer mechanism to consider change in the production and consumption of the countries between which the transfer takes place, in particular, it is necessary to consider in which stage of the business cycle the transfer occurs. In times of crises the debtor country is forced to sell its commodities abroad for a pittance, in order to fulfil its debt obligations. 'Crisis is the capitalistic form in which the difficulties of payments in general and in particular of transfers find their expression'.[832] During the crisis, when the adaptation of production encounters special difficulties, it is possible that

> a strong fall of prices will not lead to a sufficient sale of commodities. The result – is an open crisis. The same happens when transferring international debts. The government can liquidate its debts in local currency by depreciating its currency. If the obligations are expressed in foreign currency or in general it is about private-legal obligations, then the debtor has no choice but to declare himself bankrupt or in general not to fulfil the obligations.
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> 'This open crisis character permits the transfer problems to designate, that the theoretically so beautifully built transfer mechanism in the period of crisis must come to nothing'.[833]

[831]Kitamura 1939, p. 577.
[832]Kitamura 1939, p. 579.
[833]Gregory 1933, p. 7.

7. The question on uneven distribution of gold in the modern literature

Modern supporters of the theory of self-regulation of the balance of payments cannot deny the fact of the unevenness of the distribution of gold among individual countries. Therefore they try to explain the reasons which prevent the normal functioning of the mechanism of self-regulation.

Gregory, examining the question of the *maldistribution* of gold, analyses the causes that prevent the self-regulation of the balance of payments. He says that the influence of gold exports can be destroyed by a credit expansion. The export of gold should lead to a reduction of prices, but a credit expansion paralyses this potential influence of the outflow of gold on prices.

On the other hand, if the influence of gold imports on prices likewise is paralysed by a reduction in the volume of other forms of purchasing ability, then we have a second retreat from the presupposition, established by the classical school.

In this case the export of gold will be more significant than the export of gold which would have been necessary to restore the equilibrium under 'natural traffic'.

The actual distribution of gold that will occur as a result of the simultaneous application of the opposite policy in countries, can be characterised, as a *maldistribution* of gold in the sense that the adjustment could be achieved through less gold, if the countries pursued a different policy.[834]

'The fact is that the normal working of the gold standard assumes a certain elasticity of the factors of production and their remuneration; if this elasticity is not present, it produces an altogether novel state of affairs, with which the established economic doctrine, which assumes elasticity, is unable to cope'.[835]

Thus, we see that Gregory considers the causes of the uneven distribution of gold, on the one hand, the sterilisation of gold and credit expansion, on the other hand, – the lack of elasticity of costs of production and of prices.

Strakosch[836] points out that the war (1914–18) disorganised the monetary system of most countries, that a large part of the gold went to the United States and neutral countries. When countries after the war began to restore their currency, they found that the free flow of trade and gold is delayed by barriers of various types.

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[834]Gregory 1933, p. 11.
[835]Strakosch, Henry 1930, Gold and the Price Level, London: The Economist newspaper.
[836]De Leener 1933, p. 96.

Most economists of the English school support the thesis of Cassel that annual increase of the gold reserve by three per cent is a prerequisite for the normal development of the world capitalist economy.

Until 1928, according to Strakosch, gold production in general almost reached the indicated three per cent, but since 1929 the uneven distribution of gold, absorbed by the United States and France, caused a drop in prices and was the main reason of the world economic crisis.

De Leener points out that 'the randomness, that interferes with the functioning of this mechanism, does not hinder its realisation, because it [the mechanism] determines the main points of the movement of gold. Instead of rejecting the mechanism of the international movement of gold, it is necessary to analyse those circumstances that interfere with its operation'.[837]

Recognising the correctness of the classical theory, De Leener considers it necessary to mention the factors that violate the normal functioning of the mechanism, in particular the sterilisation policy, the influence of political moments, the distrust to place capital in one or another country.

Economists of the English school – Strakosch, [Arthur] Salter, the Swedish economist Cassel and others believe that the main cause of the world economic crisis of 1929 is the lack of gold and its uneven distribution; the latter circumstance they put in connection, on the one hand, with reparations, war debts, and on the other – with the wrong policy of central banks. French economists – supporters of the theory of the self-regulation of the balance of payments – rejected the monetary factor as cause of the crisis, rejected the fact of sterilisation of gold, in particular in France.

Professor Rist is the most prominent representative of the French school, polemicising with economists who asserted that sterilisation of gold occurred in France, indicates that 'the central bank normally limits itself to the satisfaction of those credit requirements that are presented to it, and in the period of the depression these requirements did not arise'.[838]

Turning to the assignment of the blame on France, that it contributed to the uneven distribution of gold, Rist indicates that in reality on the part of the Banque de France there was no demand for gold, but there was a huge demand for francs and the offer of foreign currency on the part of the public. The redistribution of gold, in the opinion of Rist, was not the result of the policy of the central bank, but a consequence of circumstances that it could not control.

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[837]Rist 1933, p. 107.
[838]Rist 1933 [no page reference].

If [the inflow of] gold surges in a period when industry is depressed, and there is no confidence, necessary for the conclusion of new transactions, then gold cannot be used for the expansion of credit.

But rejecting the accusation [that there was] gold sterilisation by the Banque de France, Rist together with this says that the policy of the American Federal Reserve Banks, which replaced exported gold with their own credits, delayed the process of adaptation of production to consumption.

Rist points out that between the import of gold into France and the United States, and the fall in prices there is a certain dependence, but, 'not regarding the influx of gold into [the closed cellars of] these [central] banks [as] the cause of the price depression, we [instead] see in the latter [price depression] the real cause of the uneven distribution of gold reserves'.[839]

In one of his essays Rist[840] points to the following main factors that caused the uneven distribution of gold in the post-war period:

1) The belated stabilisation of European currencies, as a result of which a huge amount of gold was accumulated in the United States. The accumulation of gold in the United States was not the result of economic necessity, but was connected with erroneous policies of the main central banks of England, France and Italy.

2) In England, where the gold standard was restored, despite strong inflation, the purchasing power of the population in relation to domestic commodities remained the same, but increased in relation to foreign commodities, while the purchasing power of foreigners decreased in relation to English products, resulting in a reduction of English exports and increased unemployment.

In other countries (France, Belgium) with the stabilisation an exchange rate was chosen lower than that which corresponds to the level of world prices, and as a result in them was observed the process of an increase of domestic prices and the purchasing power of the population fell.

Thus, in countries that conducted one or the other policy – English or French, the purchasing power of both the local population and foreigners was lowered in relation to the whole mass of commodities.

Such a situation had to result in a decrease of golden prices.

3) The abandonment of the old discount policy, which put the protection of the gold standard as its goal, and its replacement by the policy of intervention in the open market in order to

[839] Rist 1933, p. [no page reference].
[840] 'La mauvaise répartition de l'or dans le monde' in Rist 1933.

paralyse the influence of a gold outflow on prices represented by itself in reality a 'falsification of the correct policy of the gold standard' (example of England).
4) The erroneous policy of some central banks, raising the discount rate for the attraction of short-term capital and placement of it in long-term investments (example of Germany).
5) The erroneous reassessment of the role of gold reserves of some countries, which attracted short-term capital in order to strengthen these reserves.
6) Stock exchange speculation in the United States, which caused an inflow of gold into the United States.
7) Finally, the development in some countries, most in need of foreign capital, of xenophobia.
The totality of all these circumstances, which are the result of the psychology, inherited from the war time, or erroneous policy of central banks in the establishment of a stable exchange rate, conditioned then, what is called the bad functioning of the gold standard.
Therefore, if one wants that the gold standard again functioned normally, it is necessary to create the set of normal conditions under which it functioned during the nineteenth century.

> It is necessary to again restore the role of the discount rate, to abandon the policy of "managed currency", the sad results of which jars the eyes; banks should stop to immobilise the means of the public, that they are obliged to reimburse at sight; it is necessary to restore political trust, without which financial loans are impossible, to set for new monetary units a singular exchange rate, corresponding to the budgetary possibilities of the government, to restore international trade, at present almost destroyed ... Then the gold standard will again function, to the satisfaction of the whole world, because the normal ways will be restored, according to which gold will be distributed around the world, while in the present time it is difficult to move gold and one shows surprise, why it flows in the direction of those singular channels, in which it can still find security and protection.[841]

8. [Summary and concluding section]

Let us summarise the analysis of the modern theories of the adjustment of the balance of payments.

[841]Rist 1933, p. 143 [this page reference seems incorrect].

1) The main proposition, put forward by classical bourgeois political economy, continues to be defended by most economists of England and the United States.

Taussig, remaining on the basis of the quantity theory, highlights the significance of the movement of bank deposits on commodity prices, and believes that this movement, in the final analysis, follows after the movement of gold.

Recognising the existence of the mechanical process of influence of gold movement on prices and on the adjustment of the balance of payments, Taussig notes the complexity of the mechanism and the necessity for a long period for the realisation of this process of price adaptation to the movement of gold.

2) The main defects of the neoclassical theory are the recognition by its representatives, as a basis, of the quantity theory of money and the disregard of the connection between the various phases of the cycle of the conjuncture and the state of the balance of payments.

3) In the period after the First World War a new theory is put forward of automatic adjustment of the balance of payments – the theory of transfer of purchasing power. Embryos of this theory can be found in Bastable and Nicholson.

The greatest development of this theory was obtained in Angell and Ohlin. In the opinion of these economists, a decrease in the purchasing power of the population causes a fall of prices, an increase – a rise of prices and as a result there occurs the adaptation of the balance of trade to the movement of capital.

4) The theory of transfer of purchasing power essentially is the same mechanistic theory as the theory of the classics and neo-classics. By purchasing power Angell understands cash and deposits combined; this understanding corresponds also to the understanding of Taussig. Ohlin understands by purchasing power the sums of money income and the inflow of liquid capital. This understanding is close to the understanding of the modern quantity theorists, for example, Hawtrey, who believes that the unspent stock of purchasing power consists of cash and bank credits and that the nearest cause of the movement of prices is the size of investment expenditure.

The remark of professor Haberler is correct, that in essence the concept of 'money supply' of the quantity theorists and the 'monetary' expenses of supporters of the theory of transfer of purchasing power are identical, and that, consequently, also the theory of transfer of purchasing power rests on the quantity theory of money, although representatives of this theory disavow from the quantity theorists.[842]

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[842]["There is no advantage in substituting, as Professor Aftalion wishes to do, for "quantity of money" the expression "total incomes". Naturally the quantity of money influences the price level only when it is actually spent, and thus constitutes an effective demand for goods. Without altering in any way the meaning of the

The old quantity theorists base their theory of equilibrium on the equilibrium between buying and selling, not understanding, that the separation of purchase and sale under the participation of money creates the possibility of crisis. Modern theorists of the transfer of purchasing power identify the movement of loan capital, money capital with the movement of real capital, not understanding their difference, not understanding that the movement of loan capital may have the opposite trend from that of real capital, and that the transfer of loan capital does not at all signify a transformation of it into real capital, purchase of commodities. 'Not every increase in money capital for loan is an index of genuine capital accumulation or an expansion of the reproduction process'.[843]

Thus, the main proposition of the supporters of this theory – the principle of conservation of purchasing power, consists, in the expression of Rueff, of the fact that the purchasing power, as a result of various economic transformations, never disappears and is not created, but always remains stable, rests on the identification of categories of loan and real capital.

5) Disputes about the adjustment mechanism of the balance of payments took a passionate character in the discussion of the reparation question.

French economists, proceeding from the classical theory and the theory of transfer of purchasing power, believed that no transfer problem exists, that reparation payments have the same influence on the balance of payments, as loans.

Some German economists argued that the transfer of reparation payments is fundamentally different from the transfer of loans and that the disbursement of reparations over the course of a long period of time is impossible, since there can be no lasting inconsistency between the prices of different countries.

The British and the Americans held a middle position, saying that for the increase of exports the Germans should lower costs of production and, above all, wages, but at the same time remarked that under these conditions the transfer problem will not be solved, if the demand for German commodities will not be expanded, if foreign countries will increase customs tariffs, and so on.

The theories of French, German and English economists reflected the interests and policies of their respective states.

The proposition about the identical action of reparation payments and loans on the balance of payments is wrong and rests on the theory of the transfer of purchasing power. We pointed

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classical theory one could say "total money incomes fall", "the supply of money shrinks" or "the demand for goods becomes smaller" instead of saying "the quantity of money diminishes" or "there is an outflow of gold". One could also speak with Professor Ohlin of a "shift in (nominal) purchasing power"' (Haberler 1936, p. 28).]

[843]Marx 1981, p. 616.

out that the main mistake of this theory lies in the identification of money capital and real capital, in the incomprehension of the relatively independent character of loan capital.

The application of this theory to the mechanism of redemption of reparation payments is even more incorrect, since with loans we usually have an increase in demand for the commodities of the country providing loans, an increased demand for commodities in the country receiving the loans, while the disbursement of reparations is not connected with the moments of the economic cycle and, therefore, the gap between the transfer of monetary sums and the demand on commodities can be even more significant. But if the disbursement of reparation payments and the provision of loans are not identical for the adjustment mechanism of the balance of payments, then Liefmann's position, principally dividing reparation payments from any credit transactions, in particular from interest and debt payment, is incorrect, since payment of interest or redemption of public loans (for example, war loans) are perfectly similar to the disbursement of reparations, from the viewpoint of influence on the balance of payments.

In reality disbursement to foreign states of considerable sums in the local currency does not automatically entail a corresponding export of commodities. It is necessary to distinguish payments in local currency from remittance in foreign currency, which requires export of commodities or provision of services or loans abroad. The disbursement of reparations of Germany encountered difficulties, since the countries, who received them are industrial countries competing with Germany and impede the export of German commodities to their countries. The same situation existed in substance with the inter-allied debts. Therefore it is characteristic that Roosevelt in his [fifth report] message to Congress [11 June 1942] about the Lend-Lease Act said, that with the new agreements with Great Britain, the USSR, and others 'we have affirmatively declared our intention to avoid the political and economic mistakes of international debt settlement experienced during the twenties'. The same position was taken by Lord Chancellor Simon, who declared in the House of Lords on 22 June 1942, that the last war made it clear that 'attempts to transfer vast sums — presumably in war debt payments — from one country to another as a result of war inflicted harm equally on payer and payee. "I can say with the government's authority", he added, "that it is the determination of the government that these tragic errors shall not be repeated"'.[844]

English newspapers, commenting on this statement, conclude that Great Britain does not intend to demand monetary reparation payments, like those which were established by the

[844] *Financial News* 29 June 1942 [paraphrase, no exact source].

Versailles Treaty. The *Financial News*, for example, emphasises that disbursement of reparations is possible only in the form of transfer of commodities.

After the defeat of fascist Germany the question arises of compensation for the damage inflicted by the fascist invaders.

It is said in the Decree of the Presidium of the Supreme Soviet of the USSR of 2 November 1942 on the formation of the Extraordinary State Commission for ascertaining and investigating crimes perpetrated by the German-fascist invaders and their accomplices, that 'for all crimes perpetrated by [them] and for all material losses inflicted by them on Soviet citizens, collective farms, co-operatives and other social organisations, State enterprises and institutions of the Soviet Union, the criminal Hitlerite Government, the German Army Command and their accomplices bear full responsibility – both for the crimes and for the material losses'.[845]

Compensation for the damage, inflicted to the Soviet Union by the fascist invaders, will not generate a monetary transfer remitted in foreign currency, since by virtue of the planned character of the Soviet economy and the monopoly of foreign trade the whole damage can be compensated by commodities. Thus, compensation of damage in this case will not require the generation of payment in foreign currency and will not generate all those complications, that existed during the reparation problem after the First World War.

In the communique on the results of the Crimea Conference the leaders of the three allied powers – the Soviet Union, the United States of America and Great Britain – stated that 'we have considered the question of the damage caused by Germany to the Allied Nations in this war and recognized it as just that Germany be obliged to make compensation for this damage *in kind* to the greatest extent possible'.[846]

6) In the period after the First World War a group of bourgeois economists comes forward who believe that the development of the national economy can be regulated through the discount policy, [and] crises avoided.

The history of the world economic crisis of 1929–33 clearly proved the bankruptcy of these theories. The discount policy, the policy of expansion of credits in the period of crises delays the process of price decline, it increases the passivity of the balance of payments and prevents the restoration of its equilibrium.

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[845] [Investigation of Nazi atrocities: decree of the Supreme Soviet of the U.S.S.R.; statement by the Extraordinary State Commission.]

[846] [Report of the Crimea Conference (Yalta Conference), 11 February 1945. *The Major International Treaties of the Twentieth Century volume 1 ,* p. 268.]

7) The question about the effect of discount policy on prices in the period of monopoly capitalism is explored by Mühlenfels and Tismer.

They indicate that monopolies, despite the lower demand, keep prices high and thereby prevent the process of decline of prices for the export industries, [of prices of] the raw materials or semi-finished products purchased from cartels, and make the adjustment of the balance of payments more difficult.

But, on the other hand, cartels practice dumping policy in relation to the export of their commodities and thereby enhance the balance of trade.

Not the discount policy, but the trade and customs policy, the cartel policy affects prices, – to this conclusion comes Tismer. Although the dumping policy of cartels enhances the balance of trade, yet the income from export grows slower than the export mass, and, thus, the effect of their policy for the adjustment of the balance of payments dwindles.

8) Opponents of the quantity school on the basis of the post-war experience come out more strongly against the theory of automatic self-regulation of the balance of payments and against the thesis on uniform distribution of gold. Among bourgeois economists the most decided against the quantity theory is professor Aftalion.

In his argument against the quantity theorists he, however, highlights moments of a psychological order, not sensing that these moments are not of an independent nature, but are determined by economic factors, the state of the conjuncture, determined by the development of the industrial cycle.

Observing that the post-war period is characterised by uneven distribution of gold, Aftalion does not understand the connection between this moment and the general crisis of the system of capitalism.

9) Modern supporters of self-regulation of the balance of payments cannot deny the fact of the uneven distribution of gold, and therefore their task is the explanation of the reasons for the so abnormal, – from the viewpoint of their theories, – situation.

Gregory considers the causes of the disruption of the action of the gold standard [to be] the sterilisation of gold and credit expansion, on the one hand, and the lack of elasticity of commodity prices and costs of production (the difficulty of lowering wages, due to the resistance of workers).

These propositions are fundamentally shared also by the other modern supporters of the automatic regulation of the balance of payments.

10) If English economists – Gregory, Strakosch and others – accuse France of the point that its policy caused the process of uneven distribution of gold, then professor Rist, in turn,

believes that England for its wrong monetary policy is responsible for the crisis. But all these economists believe that for a normal functioning of the gold standard, the mechanism of self-regulation of the balance of payments, – a return to the conditions of the nineteenth century is necessary, that is to free trade, a relatively stable relationship between the main capitalist countries, and so on. These economists express the utopian wish for a return to old capitalism.

Familiarisation with the views of modern bourgeois economists on the question of the balance of payments shows, that most of these economists – the neo-classics, supporters of the theory of transfer of purchasing power, preach harmonious self-regulation of the balance of payments, despite the glaring contradiction of their theories to the facts. Insofar as some of the economists (Gregory, Rist, and others) are forced to reckon with the fact of the currency crisis, the uneven distribution of gold, they seek to prove that the reasons preventing the mechanism of self-regulation of the balance of payments is temporary, and dream about a return to pre-war capitalism, when, according to their opinion, the mechanism worked satisfactorily.

A relatively small group of economists – Nogaro, Aftalion, Keynes and others – reject the proposition on harmonic self-regulation of the balance of payments, but they believe, that through concerted activity of central banks, the governments of capitalist countries can eliminate or soften the crisis-ridden path of adjustment of the balance of payments. These theorists do not understand the connection of the crisis of the gold standard, the process of uneven distribution of gold with the general crisis of capitalism.

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In the previous chapter we outlined the main theses of the theory of Marx on the adjustment mechanism of the balance of payments.[847] We saw that Marx considered the process of change of the balance of payments as one of the moments of the industrial cycle, that the passivity of the balance of payments usually comes before crisis, that the crisis restores the equilibrium of the balance of payments not through increased exports of commodities, but the reduction of imports and through bankruptcy, that the export and import of gold does not cause mechanically the process of restoration of the equilibrium of the balance of payments and therefore the deterioration of the condition of the balance of payments can lead to uneven distribution of gold. These basic propositions retain all their importance also

[847] [See chapter ten in this volume.]

for the era of imperialism. But if in the period of industrial capitalism, 'as soon as the *general crises* have burned out, the bullion (leaving aside the influx of surplus bullion from the producing countries) is again distributed in the proportions in which it previously existed as a hoard in the various countries, *in a state of equilibrium*',[848] then in the era of imperialism, in particular in the period of the general crisis of capitalism, we observe the process of intensification of the unevenness of the distribution the gold, as a result of the intensification of the unevenness of the development of capitalism.

As is known, Lenin gives the following characterisation of imperialism: 'Imperialism is capitalism at that stage of development at which the dominance of monopolies and finance capital is established; in which the export of capital has acquired pronounced importance;[849] in which the division of the world among the international trusts has begun, in which the division of all territories of the globe among the biggest capitalist powers has been completed'.[850]

How are these new features and, in particular, the export of capital reflected on the adjustment of the balance of payments?

Among the bourgeois economists there are two opposites theories on the question of relationship between the export of commodities and the export of capital.

Keynes believes that, historically, the volume of investment abroad more likely has the tendency to adapt, at least to a certain extent, to the balance of trade, than the balance of trade [adapts] to the export of capital, while Rueff and others economists believe that the balance of trade adapts to the export of capital or to other payments.

Neither formulation can be recognised as correct.

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[848]Marx 2015, pp. 667–8 (Marx 1981, pp. 703–4) [emphasis in Marx's manuscript]. [Marx believed that the recovery from crises would result in gold's 'original distribution' or 'normal distribution' among different national reserves.]

[849][In his October 1917 article 'Revision of the Party Programme', Lenin carefully avoids making the statement that export of capital in general happens due to the search for superprofits (alone): 'In Comrade Sokolnikov's draft, we find a mere reference to the "export of capital" in one place, while in another, and in an entirely different connection, we read of "new countries which are fields for the utilisation of capital exported in search of superprofits". It is difficult to accept as correct the statement on superprofits and new countries since capital has also been exported from Germany to Italy, from France to Switzerland, etc. Under imperialism, capital has begun to be exported to the old countries as well, and not for superprofits alone. What is true with regard to the new countries is not true with regard to the export of capital in general'. Lenin criticised Sokolnikov's draft further: 'Speaking of the "civilised world", the programme points out the *dis*harmony, the existence of uncivilised countries (this is a fact), while in Comrade Sokolnikov's draft things appear *much more harmonious*, for it speaks simply of "drawing all peoples into one world economy"! As if all peoples were equally drawn into this one world economy! As if there existed no relationship of *bondage* between the uncivilised and the "civilised" peoples precisely *on the basis* of "all peoples" being drawn "into one world economy"'.]

[850]Lenin 1917, pp. 266–67.

In reality capital export and the export of commodities are found in an interaction, the export of commodities creates resources that capitalists can place abroad, and at the same time capital export strengthens the export of commodities.

The errors of bourgeois economists in their interpretation of the relationship between capital export and the export of commodities consist in the fact that they consider capital export as adaptation to the export of commodities (Keynes), or capital export is actually identified with the export of commodities (Rueff), they do not understand their interaction, the connection and at the same time the difference between the export of capital, as money capital, and the export of real capital in commodity form.

In the epoch of imperialism the connection between export of capital and export of commodities strengthens. We have seen, that Taussig, speaking on the connection between these phenomena, noted that Great Britain was the largest creditor before the war and at the same time the country where one could buy industrial equipment at the cheapest price. In the epoch of imperialism, the rule of monopolies, the merging of bank with industrial capital an increasingly characteristic mandatory condition for the provision of loans is the purchase of commodities of the given country, usually not just of the given country, but of certain industrial groups.

> Finance capital has created the epoch of monopolies, and monopolies introduce everywhere monopolist principles: the utilisation of "connections" for profitable transactions takes the place of competition on the open market. The most usual thing is to stipulate that part of the loan granted shall be spent on purchases in the creditor country, particularly on orders for war materials, or for ships, etc.
>
> In the course of the last two decades (1890-1910), France has very often resorted to this method. The export of capital thus becomes a means of encouraging the export of commodities.[851]

The connection between the export of capital and the export of commodities is amplified, wherewith this connection is not so as the classical theory depicted (that is export of gold causes a fall of commodity prices), but through the pressure of creditor countries on the borrowers. Therefore purchases commodities in given country may take place not only because, commodity prices in it are lower, but even despite when commodity pricer are

[851]Lenin 1917, p. 244.

higher in it, and monopolists in these sales will not only not lower prices, but on the contrary, raise them.

It is curious that Taussig. speaking about Great Britain, was forced to recognise that 'periods of active lending [abroad] have been characterised by rising prices rather than by falling prices, and [...] the export of goods apparently has taken place, not in connection with a cheapening of goods in the lending country, but in spite of the fact that its goods have seemed to be dearer at times of great capital export'.[852]

Taussig remarks that we deal here with a phenomenon that is not fully explicable. Indeed, from the viewpoint of the theory, shared by Taussig, this phenomenon is inexplicable, by contrast, it is quite natural from the viewpoint of the proposition developed by us.

But such a connection there is under loans. This proposition cannot be extended to other cases of payments – the payment of interest and especially the disbursement of reparations and similar unilateral payments. In this consists also one of the errors of the theory of the transfer of purchasing power of Angell, Ohlin and others.

It is also necessary to distinguish between cases of payment of interest by colonial countries and the payment of interest and debts by industrial country.

The export of capital to colonial countries is closely connected with the struggle for the market of raw materials. 'The more capitalism is developed, the more strongly the shortage of raw materials is felt, the more intense the competition and the hunt for sources of raw materials throughout the whole world'.[853]

The imperialist countries, exploiting the colonies and dependent countries, keep the prices of their products on a low level. '[M]ost agricultural peoples are forced to sell their product below its value whereas in countries with advanced capitalist production the agricultural produce rises to its value'.[854]

Capital export to these countries, directed on the development of the raw materials industries, created the prerequisite for the later export of commodities from these countries, for the formation, in this way, of a source for the coverage of interest [payments], for the adjustment of the balance of payments.

Thus, the export of commodities from the colonies in [the service of] payment of interest and debts was not due to the point that the export of gold from these countries caused a drop in prices, as the classical school assumed, but because the raw materials were necessary to imperialist countries, and because the low prices conditioned low wages, low price [rent] on

[852]Taussig 1927, p. 239. [In Frej the last word mistakenly was printed: 'at times of great export of *commodities*'.]
[853]Lenin 1917, p. 260.
[854]Marx 1989b, p. 108.

ground, the exploitation of these countries by the capitalist monopolies of imperialist countries.

The general index of wholesale commodities, for example, in the United States in 1913 in relation to 1897 increased by 50 per cent, while prices of colonial commodities declined over this period: sugar by 3 per cent, rubber by 5 per cent, tea by 12 per cent, rice rose by only 2 per cent, silk by 5 per cent.

Between the prices of colonial commodities in the colonies and in in the metropolis, in its turn, there is a gap.

But, it is understood, the onset of the crisis, the fall in prices of raw materials, usually stronger than the fall in prices of fabrics, the reduced value of export disturbs the equilibrium of the balance of payments, causes the bankruptcy of the debtor countries.

While under capital export we see a close connection between capital export and export of commodities, while this connection has close character also under the payment of interest and export of commodities from colonies, the character of the interrelation between payment of interest, debts and the export of commodities by independent industrial countries is different. The monetary form, separates from the material form, the country, receiving the interest, cannot use it for purchases of commodities in the country paying these sums.

The strengthening role of capital export, on the one hand, payment of interest and dividends, on the other – are characteristic moments for the balance of payments in the epoch of imperialism.

Another characteristic point is the influence of monopoly on the adjustment process of the balance of payments.

We saw that in the epoch of industrial capitalism, the reduction of prices was one of the means to strengthen the export of commodities and thereby adjust the balance of payments.

How do the monopolistic moments influence the adjustment of the balance of payments? It is obvious that the monopoly character of the industry of the imperialist countries increases the non-equivalence of exchange between the colonial and semi-independent resource-rich [countries] and the imperialist countries. In view of the fact that the first countries are debtor countries, then the increase in the non-equivalence of commodity exchange causes an increase of the passivity of their balances of payments and, consequently, aggravation of crisis, bankruptcies.

But passivity of the balance of payments is not only the destiny of debtor countries: the decline of exports, the increase of imports, the reduction in the income from invested capital

calls forth the passivity of the balance of payments of the imperialist countries.

Already Marx noted that '[i]n times of general crisis the balance of payments is against every country, at least against every commercially developed country, but always against each of these in succession – like volley firing – as soon as the sequence of payments reaches it'.[855]

How is the monopolistic character of capitalism reflected on the adjustment of the balance of payments of imperialism countries?

Speaking about the influence of monopoly on prices in the field of exports, it is necessary to distinguish two opposite tendencies. Monopolies sell commodities on foreign markets cheaper than on the domestic markets. This phenomenon occurs, of course, only in those markets where they are faced with international competition; in the colonies monopolies establish high prices.

But if the lower prices of monopolies on the foreign market promote the enhancement of export, then the growth of capital export encounters the measures taken by other countries against import, increased customs duties, restriction of import, and so on; thus, a decrease of prices may not lead to an increase of the value of exports. On the other hand, high prices of monopolies, especially of raw materials and semi-finished products, on the domestic market make the process of lowering prices more difficult of the other, non-monopolistic industries and thereby their competition on the foreign market.

A characteristic moment for monopoly capitalism is the gap between the free prices of non-cartelised industries and monopolistic prices. Monopolies inflate the prices of their commodities and press on the prices of free industries. In a crises period the prices of commodities of free industries fall much more, than the prices of monopoly commodities, meanwhile the costs of their production, insofar as they buy raw materials from cartels, go down much less. Thus, monopolistic capitalism strengthens the unevenness in the movement of prices of individual commodities, strengthens the gap between prices of colonial commodities and commodities of imperialist countries, between prices of monopoly and non-monopoly industries. All this in aggregate complicates the adjustment of the balance of payments, strengthens the crisis method of its adjustment.

Low prices for colonial commodities worsen the balance of payments of colonial countries. If the exacerbation of the non-equivalence of the exchange of commodities of colonial and imperialist countries is as if advantageous to the latter and improves their balances of trade and payments, then one should not forget that the declining activeness of the balance of payments of colonial countries leads to the termination of their payment of interest and

[855]Marx 1981, p. 623.

debts to imperialist countries, consequently, to the worsening of the balance of payments of the latter.

The increase of export encounters during the crisis the narrowing of the external market, the fight of individual countries against imports. Therefore it is characteristic that the adjustment process of the balance of payments through enhancement of the balance of trade does not occur through the increase of exports, as bourgeois economists assume, but mainly through the decrease of imports.

The reduction of imports for one country is the reduction of exports for another country. Insofar as capitalist countries reduce imports from colonial countries, from debtor countries, they make it more difficult for them to pay interest and, thus, ultimately worsen also their own balance of payments.

Let us dwell on the influence of the outflow and inflow of gold on the adjustment of the balance of payments.

We saw that Marx rejected the direct influence the outflow and inflow of gold on commodity prices and indicated that the influx or efflux of gold affects the interest rate, credit and that the influence on prices can only be observed through the influence on credit, wherewith this influence depends on the state of the industrial cycle. The influence of an outflow of gold first of all is reflected on the discount policy of the central bank.

Marx pointed out that

> [t]he power of the Bank of England is shown by its regulation of the market rate of interest. In times when business runs its normal course, it may happen that the Bank of England cannot check a moderate drain of gold from its metal reserve by raising its discount rate, since the demand for means of payment is satisfied by the private and joint-stock banks, and by billbrokers, who have acquired a great deal of capital power in the last thirty years. It then has to employ other means.[856]

Thus, already in the time of Marx the declining role of the central bank in the regulation of interest rates was outlined.

In the epoch of imperialism the role of deposit banks grows, and the role of the central bank falls, and thereby the role of the discount policy, as a means of influencing the adjustment of the balance of payments, weakens.

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[856]Marx 1981, pp. 676–77.

We have seen that some bourgeois economists, recognise that 'the interest rate is not controlled by the central bank' (Lawrence). The discount rate of the central bank is determined, basically, by the movements of the conjuncture. Speaking about the impact of an increase of the discount rate on the balance of payments, one needs to distinguish between the influence on the movement of capital and the influence on the balance of trade. The increase of the discount rate before the war of 1914–18 was the classical method for England, since England was a creditor country and the increase of the discount rate influenced the reduction of loans, provided by the British to foreigners, and thereby facilitated the adjustment of the balance of payments.

An influence of the discount rate as a means of adjustment of the balance of payments, is more difficult [to achieve] for debtor countries. An increase of the discount rate cannot only cause a greater inflow of foreign capital, but also the contrary, the high rate, being an indicator of an unfavourable situation of the money market, can strengthen the outflow of capital. For example, the increase of the discount rate by the Russian State Bank in 1906 was accompanied by the increased outflow of foreign capital from Russian banks.

It is characteristic that also for England the increase of thr interest rates did not always give positive results. Clare indicates that in 1866, during the crisis, 'for full three months [...] there was a discount-margin of no less than six per cent between London and Paris, and yet the exchange, instead of rising, fell as far as it was possible to fall. For full three months continental bankers could have bought the best London acceptances at a price which would have returned them nine or ten per cent, and yet, so low had our credit fallen that they preferred to employ their money at home at three or four per cent'.[857]

Complications of the [political] interrelation between France and Germany in 1911 caused an outflow of capital from Germany, and the increase of the Reichsbank's discount rate did not halt the outflow.

Thus, the growing contradictions between the capitalist states before the war of 1914–18 weakened the influence of the discount rate on the movement of short-term capital, on the adjustment of the balance of payments.

As for the influence of the discount rate on the balance of trade, on price movements, then we pointed out, that not every increase of the central bank's interest rate is reflected in an increase of the market interest rate, and not every increase of the interest rate is accompanied by a reduction of credit, and only the latter affects a lowering of prices.

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[857]Clare 1911, pp. 97–8.

At the same time, in the period of monopoly capitalism monopolies succeed for a certain time in keeping the prices high and thereby paralyse the policy of the central bank aimed at adjustment of the balance of payments.

All this undermines the influence of the interest policy on the adjustment of the balance of payments and, consequently, intensifies the scope of export of gold and its uneven distribution.

Thus, we see that in the era of monopoly capitalism contradictions are not weakened, but amplified, there is an intensification of the crisis method of adjusting the balance of payments.

Helferding's thesis that crises soften in the period of the imperialism, is absolutely wrong. Lenin pointed out that '[t]he statement that cartels can abolish crises is a fable spread by bourgeois economists who at all costs desire to place capitalism in a favourable light. On the contrary, the monopoly created in *certain* branches of industry increases and intensifies the anarchy inherent in capitalist production *as a whole*'.[858]

If the tendencies, inherent in monopoly capitalism, make the adjustment process of the balance of payment more difficult and strengthen the role of crises, bankruptcies, as means of actual adjustment of the balance of payments, then these tendencies in the period before the First World War did not receive their full realisation.

If in the period before the First World War we had a relative equilibrium of the balance of payments of capitalist countries and hence the relative stability of their currencies, then the situation dramatically changes in the period of the general crisis of capitalism, especially in the period of the 1929 world economic crisis

In the period of general crisis of capitalism, we observe aggravation of all contradictions of monopoly capitalism which, as we have seen, prevent the adjustment of the balance of payments and strengthen the uneven distribution of gold between capitalist countries.

Let us outline some moments.

The scissors between the prices of agricultural and industrial commodities are in particular strongly manifested in agrarian, debtor countries.

We confine ourselves to an illustration of this proposition, given in the work of Varga.[859]

Index of prices (the year 1913=100)

[858]Lenin 1917, p. 208.
[859]Varga 1935, p. 61.

Years	Industrially-made products		cast iron	coal	Colonial commodities		
					Indian cotton	jute	tea
	USA	Germany	England		England		
1929	136	157	132	122	114	102	138
1931	111	186	110	114	59	54	74
1932	101	119	109	113	65	52	65

We see that also before the crisis the index of industrial commodities compared with the pre-war period was significantly higher than the index of colonial commodities, and that during the crisis the gap has become even stronger.

This state of affairs could not but affect the agrarian countries, making the adjustment of their balance of payments more difficult, since the value of exports fell, while the sum of debts, interest remained the same.

If the change in the equivalence of commodity exchange was in favour of industrial countries, if, as Stalin indicated, in the period of the depression a special type of '[c]apitalism has succeeded in somewhat alleviating the position of industry [...] at the expense of the peasants in the colonies and economically weak countries, by still further forcing down prices for the products of their labour, principally for raw materials, and also for foodstuffs',[860] then this same change of equivalence, reducing the passivity of the balance of trade of the creditor countries, made it even more difficult for agrarian countries to be able to pay interest and reduced the income sources of creditor countries and thereby influenced adversely the state of their current account and balance of payments.

The bankruptcy of the debtor countries lowered the active saldo of the current account of the main creditor countries, or even turned this saldo into a passive one, and the creditor countries were not in a position to provide new loans to the debtor countries, which, in its turn, worsened the position of the balance of payments of these latter.

The result was a vicious circle of contradictions, resolved only through crisis, bankruptcies.

The crisis led to the strengthening of monopolies. Stalin indicates that '[p]resent-day capitalism, unlike the old capitalism, is monopoly capitalism, and this predetermines the

[860]Stalin 1934, p. .

inevitability of the capitalist combines fighting to keep up the high monopolist prices of goods, in spite of over-production'.[861]

The gap between monopolistic and free prices strengthens; in Germany, for example, the indices of fixed prices constituted in 1932 eighty per cent of the level of 1926, while of free prices forty-nine per cent.

We have already noted the dual effect of monopoly prices on exports: during the crisis dumping intensifies, the prices of exported commodities fall more than domestic ones. For example, the domestic price of beams in England in 1933 constituted 82.9 per cent of the index of 1926, and the export price – 47 per cent.

But the domestically high prices make it more difficult to reduce prices for exports of non-cartelised commodities.

In addition, in the event that the cartel can maintain high prices for exports, without fear of international competition, it preserves them and thereby impedes the strengthening of export.

The preservation of high prices for manufactured commodities makes the export of industrial countries more difficult.

Tismer points to the complaint of the Reichsbank that cartel policy contradicts its monetary policy.

Assessing the influence of monopolies on the adjustment of the balance of payments, it is necessary to take into account that the strengthening of export through dumping encounters resistance from other countries.

In the period of the general crisis of capitalism, especially in the 1929 economic crisis, customs protection strengthened – it is sufficient to point to England's transition to protectionism. In a number of countries quota are being introduced for the import of commodities, agreements are concluded that provide for a determined agreement between import and export, and, thus, dumping encounters obstacles and as a result, even the most wide-scale dumping may not lead to an increase, but to a decrease of the value of exports.

The general crisis of capitalism is characterised by a chronic underutilisation of enterprises, an excess of productive capital; the disproportion between production and accumulation causes a relative excess of loan capital. But the unstable economic and political situation of the capitalist countries leads to the fact that international capital is put mainly in short-term form, there is a growth of short-term forms of capital placement at the expense of long-term [forms].

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[861]Stalin 1930, p. 253.

The total amount of foreign short-term capital on the London market in 1931 measured over 400 million pounds. The amount of foreign short-term capital in the United States measured in 1929 over three billion dollars.

Foreign short-term capitals were pouring into London and New York, as centres of the world money market; the placement in these countries represented by itself a form of reserves for other countries.

This huge increase of short-term funds in the creditor countries was partly due to the introduction in a number of countries of the system of a gold-exchange standard.

If in England and the United States foreign capital essentially had the character of deposits, the loans provided by England, the United States, France, Holland, Switzerland to other countries were also largely of an short-term character. Out of total foreign debt in 1931 of 24 billion mark more than half fell on short-term loans. The Bank for International Settlement determines the total amount of foreign short-term capital, found in foreign countries, for 1931 at 70 billion Swiss francs.

The short-term character of the placement of foreign capital introduced instability into the state of the balances of payments, and the [shifting] movement of these capitals is one of the moments, characteristic for the balances of payments of capitalist countries in the post-war period.

At the same time, the instability of economic and political situation of the capitalist states led to fact the that the role of discount policy as a means of attracting foreign capital, as a means of adjustment of the balance of payments, strongly fell already in the pre-crisis period, and in the period of the 1929 crisis almost lost its importance

The war of 1914–18. brought with it an inheritance in the form of huge sums of war debts and reparations – a new moment of a perturbing character for the balance of payments of capitalist countries.[862]

All these moments in their totality introduced instability in the condition of the balance of payments of capitalist countries in the period of crisis of the capitalist system, hindered the adjustment of the balance of payments by methods of adaptation to the balance of trade, obtainment of new loans and, consequently, caused a strengthening of the uneven distribution of gold, of the adjustment of the balance of payments through bankruptcy, not only of individuals and companies, but also of whole states, and led, finally, to the currency crisis, covering the entire capitalist world.

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[862]'This war shook the whole system of world capitalism and marked the beginning of an epoch of general crisis'. But this general crisis is also defined by political events, that is 'an enormous mass of humanity was swept into the revolutionary torrent' (see The Programme of the Communist International, 1929).

Chapter twelve

On Value, Foreign Trade and Profit

Noa Rodman

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Introduction

Trade or *simple circulation* of commodities (so this excludes labour-power) seems benevolent in comparison to the degenerative effect of the capitalist process of production.[863] Extension of trade increases the variety of products and the 'regularity in and expansion of production': 'This is what is called the *civilising effect* of foreign trade [on barbarian peoples]'.[864] A study of foreign trade seems of even less concern to modern workers, when the exchanged products are of equal value and the producers are of a petty bourgeois character (mostly peasants). We do not dispute these sentiments, but we will underline a brutality inherent to even this general law of market (or social) value. Otherwise, just as regards commodity circulation, Marx's theory (in the first chapters of *Capital*) seems rather apologetic.[865]

The law of value, as we mention in section one, entails a difference between (social) value and individual labour time. Some producers get a higher rate of profit, despite putting in the same amount of work. This holds in international trade between countries, to the extent that the law of value operated in this brutal way already among simple (or simply) commodity

[863]'[E]xperience shows ... how rapidly and firmly capitalist production has seized the vital forces of the people [*Volkskraft*] at their very roots, although historically speaking it hardly dates from yesterday [;] how the degeneration [*die Degeneration*] of the industrial population is retarded only by the constant absorption of primitive and natural elements from the countryside ...' (Marx 1976b, p. 380).

[864]Marx 1986a, p. 187 (rephrased in Marx 1987b, p. 480).

[865]Marx's overview of the progressing types of exchange-value (finally reaching money proper) is brutal in that it corresponds to the tearing-apart of original communal production through the increasing spread of exchange. But this commodification of life can have a decidedly mild appearance to most readers of Marx's *Capital*, as it is underpinned by mutual respect of commodity-owners for each other's will: 'The guardians must therefore recognize each other as owners of *private property*' (Marx 1976b, p. 178). 'This includes the juridical concept of person and also of the freedom which it contains. That is why in Roman law, *servus* is correctly defined as one who cannot acquire through exchange' (Marx 1987b, p. 470). 'I]n simple circulation as such (in exchange value in its movement), the action of individuals upon one another is in content only the reciprocal self-interested satisfaction of their needs ... Property in someone else's labour is acquired through the equivalent of one's own labour. This form of property—just like freedom and equality—is posited in this simple relationship' (Marx 1986a, p. 170). A society consisting wholly of simple commodity producers would not be divided into classes. But we will show that simple commodity production already has some brutality to it. Understanding this is relevant to the topic of international trade in that even if the latter takes place between nations according to equal values, there remains a brutality to it.

producers.[866] The controversial question for the labour theory of value, in the absence of direct exploitation (of labour), revolves around the source of the value-amount that constitutes the profit-difference among producers in simple circulation. In section four we attempt to find an answer by pondering on a couple of Ricardo's examples of trade.
In our sections two and three, we dispute the editing by Engels of some passages in Marx's *Capital* volume three, where Marx addresses foreign trade and the rate of profit. Section five is on the specific *capitalist* law of value, and it contains our most original and best-supported reading of Marx's contribution to a theory of international 'trade'. We argue that for Marx, the general rate of profit can rise only due to foreign direct investment, destined moreover only to particular kinds of countries (and it is not for their alleged cheaper wages), whereas foreign trade in the strict sense (whether as import or export) itself does not raise the general rate of profit. Most of Marx's attention here went to Ricardo of course. For Marx, foreign 'trade' meant capitalist circulation (M–C–M'):

> Ricardo [conceives] foreign trade [...] as simple circulation and therefore says: 'Foreign trade can never increase the exchange values of a country'. The reasons he advances for this are absolutely the same as those which "prove" that exchange as such, simple circulation, that is trade in general, so far as it is conceived of as [simple] circulation, can never raise exchange values, can never produce exchange value.[867]

Our findings would, incidentally, dovetail with the shift from commodity export to capital export, an evolution that characterises the imperialist epoch as Lenin noted.

1. The general rule of (market) value(s)

How is the notion that poor (less-developed) countries have a higher national rate of profit than rich countries do, connected with the notion that these same poor countries experience (brutal) unequal exchange or transfer (of labour) to their disadvantage (when trading with

[866]Marx (followed by Dashkovsky) compares these two situations in that in both there is a restriction on the mobility of means of production (as compared to mobility within a capitalist society or within one country). Marx drew sometimes also an another analogy, namely of the 'exploitation' of lesser by more productive nations in international trade, to the exploitation between worker and capitalist in their relation. But we prefer to compare these differences in productivity between nations instead to the differences between simple commodity producers, although strictly speaking the category of profit there is absent.
[867]Marx 1986a, p. 242. '[T]his sphere of simple circulation or the exchange of commodities [...] provides the 'free-trader *vulgaris*' with his views, his concepts and the standard by which he judges the society of capital and wage-labour [...]' (Marx 1976b, p. 280).

rich countries)? Should that unequal labour exchange not lower their national rate of profit, perhaps even to a level below that of rich countries?

And how is the notion of a flow of foreign direct investment (capital export) from rich towards poor countries, connected with the notion that all (so also foreign-origin) producers located in those poor countries will experience unequal labour exchange when they export to (or trade with) rich countries? However, let us try to address a simpler topic, namely the basic law of value.

Operation of the general rule of value requires the disablement of certain social obstacles to the mobility of factors of production, and to free competition. When one claims that these obstacles were not yet disabled on pre-capitalist markets among free independent producers, then (if one wants to claim that the law of value applies in modern international trade) one bears the great burden of proving how they are disabled in trade between producers divided by state borders. But if one proves that the rule of value can operate already on pre-capitalist markets (when there does not exist a general rate of profit yet), then there is lower burden to prove its operation in international trade (where there does not exist a world general rate of profit yet either).[868]

Clarity (and agreement) about the kind of minimum preconditions for the operation of the law of value sets up a more solid basis to discuss its validity in international trade. There are many critics of the belief in the existence of the law of value among pre-capitalist commodity producers, so we will reply to their skepticism in this section. John Hobson, in his book *International Trade*, proceeded in similar fashion, although he recognised such analysis 'may appear at first sight remote from the issues of international exchange'.[869]

The term 'market value' (which Marx also calls social value) is just identical to the basic concept of value of Marx. It means that a commodity-type has one value, despite the fact that various producers put different amounts of real labour in its production.[870]

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[868]One could object to our reasoning by pointing out that international trade happens between capitalist actors who are fully engaged in commodity production, so it would be easier to prove the law of value here, than it would be for exchange among pre-capitalist simple commodity producers. However, international trade in the common (and more strict) sense does not involve the purchase of labour power (a distinctive component of foreign direct investment). It is *simple circulation*, which is not specifically capitalist. Given the existence of state intervention, like subsidies for export industries, bourgeois economists complain that the rules of 'fair' (that is basic, even non-capitalist) competition are absent in world trade.

[869] Hobson 1904, p. 45. He held to the labour theory of value, calling it the 'cost' in the sense of the time and 'trouble' expended on producing a commodity. He illustrated the law of value's validity in simple commodity production, and, like Torrens whom we will shortly discuss, he denied the law's validity in the earliest stage of history when exchange was still rare (see Hobson 1904, pp. vi, 24–5, 32–3).

[870]We abide to Dashkovsky's outline (in his section with 'law of value' in its title) of Marx's understanding of value as market value, and not 'individual value'. For the important theoretical issue (relevant to international trade) of what the value source is of the advanced producer's higher profit-rate, we refer to chapter six in *Value, Money and Capital* (2024) by Starosta, Caligaris and Fitzsimons.

What is the meaning of the theory, or law (or rule), that price is determined by value? The content of value is live-expended *average* (uniform) labour, which we will discuss in section six. Price is determined not by value in a singular sense, but by the relation between two values. In that relation the two values (or average labour times) are equal. That equality (1:1) itself is not the price, obviously. The price figure is determined by the amount of the two types of products, incorporating these two equal values (so many hours of average labour time). The price figure is expressed, by preference as a number capable of exact and varied computations, in a weight amount of one of these two products (so many grams of gold). The meaning of the theory or rule thus is that the weight-number is determined by the equality of two average labour times incorporated in amounts of exchanged products. Marx does not believe that this theory *directly* matches *capitalist* reality.[871] This does not mean that this labour theory of value is 'just a theory'. We leave aside the general point that even the weight-numbers ('empirical' prices) themselves remain also theoretical constructions (estimations of what the average price of a standard example of a product-type is at one moment).[872] We mean: if the theory of value directly matches the reality of pre-capitalist history, then it is no longer 'just a theory'. Marx himself did not spell out this chain of reasoning. If one seeks to answer the call for proof for the labour theory of value, then a prohibition on seeking this proof in pre-capitalist reality would be frivolous, as it is the only period where direct proof can be found. So, what is the proof for the law of value (the belief that price is determined by the equality of two values with each other)?

Adam Smith gave no proof or argument to back his belief in the law of value in a pre-capitalist society of mere commodity producers.[873]

As for Marx, his belief appealed to patterns over the long haul of general human development: 'If we find that certain use-values [than can be counted by their body's weight-quantity], such as, e. g., gold, silver, copper and iron, or wheat, rye, barley and oats, form a

[871]In *Capital* volume one (1867), Marx gave three indications of this; 'average prices do not directly coincide with the values of commodities, as Adam Smith, Ricardo, and others believe' (Marx 1976b, p. 269, mentioned in Plekhanov 1902a); 'One shall see in Volume 3 that this equation [of prices to values], even in the case of *average prices*, cannot be made in this simple manner (Marx 1976b [1867], p. 329, our adjustment and restoration of emphasis); 'We shall later see how the school of Ricardo has come to grief on this stumbling-block' (Marx 1976b [1867], p. 421). Engels refers also to a (non-published) manuscript: 'Marx had already resolved this contradiction in his manuscript *Zur Kritik* [*A Contribution*]' (Marx 1978, p. 101). The MECW-editors intepret Engels as referring to *Theories of Surplus Value*, but it is possibly even an earlier text, – as one reader assumed at the time (Komorzynski 1897, p. 247). Certainly, earlier, in *A Contribution* of 1859, Marx implied this thought in a passage on Smith, which we will shortly quote. But we find indeed that the topic is treated already in the *Grundrisse* (1857–58) (we will quote one passage on this later). This means that almost a decade before the publication of his *Capital*, Marx already was clear about this in his own writings.

[872]There are whole companies devoted to the calculation and provision of 'prices', for instance S&P Global Commodity Insights (formerly known as Platts).

[873]See Smith 1909, pp. 50–1.

series of specific exchange values which, though not retaining exactly the same numerical ratio, still retain through [different and] widely remote epochs of civilization [*weit auseinanderliegenden Kulturepochen*] the same rough proportion of relatively larger and smaller quantities, we may draw the conclusion that the progressive development of the productive powers of society has equally, or approximately so, affected the labor-time necessary for the production of the various commodities'.[874]

It seems in *Capital* he just specified the condition that there needs to exist a sufficient regularity of exchange-acts:

> Their quantitative exchange-relation is at first determined purely by chance.[875] … The constant repetition of exchange makes it a normal [*regelmässigen*] social process. In the course of time, therefore, at least some part of the products [*Arbeitsprodukte*] must be produced intentionally for the purpose of exchange. … [T]he quantitative proportion in which the labour-products are exchangeable becomes dependent on [or 'regulated by'[876]] their production itself. Custom fixes these exchange-proportions as value-*magnitudes*.[877]

This was just Marx's recapitulation of *Capital* chapter one's analysis of the evolution of types of exchange-value:

> In the first form [of exchange-value], 20 yards of linen = 1 coat, it might well be a purely accidental occurrence that these two commodities are exchangeable in a specific quantitative relation.[878] This form, it is plain, appears in practice only in the early stages [*in den ersten Anfängen*], when the products of labour are converted into commodities by accidental and occasional exchanges.[879]

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[874]Marx 1904, p. 36 (alternative translation in Marx 1987b, p. 279).
[875]The first edition of Marx's *Capital* (1867) had here a couple of additional sentences: 'Sie erhalten daher die *Form* Austauschbarer, bevor sie als *Werthe* entwickelt sind' (1867, p. 49). Our translation: 'They obtain the *form* of being exchangeable, before they are developed as *values*'.
[876]Our translation of '*se régler par*' in Marx 1872, p. 36 (French edition).
[877]Marx 1976b, p. 182, our correction. Ricardo's condition for, or limitation on, the law's validity is that the commodity should be produced by several people separately, not be scarce, can be multiplied in many different locations, multiplied in number to an unlimited extent if enough labour is bestowed on its production, and without monopoly or restraint on competition (see Ricardo 1821, p. 3). This law was valid according to Ricardo in 'the early stages of society' (ibid.). It follows that Ricardo believed that such condition can occur in pre-capitalist society.
[878]Marx 1976b, pp. 155–6.
[879]Marx 1976b, p. 158. This first type of exchange-value he therefore also named the 'accidental' exchange-value (see Marx 1976b, p. 139).

> In the second form, on the contrary, a background immediately shines through that is essentially different from this accidental appearance, and that determines the latter. ... The accidental relation between two individual commodity-owners disappears. It becomes plain that it is not the exchange of commodities which regulates the magnitude of their values, but rather the reverse, the magnitude of the value of commodities which regulates [*reguliert*] the proportion in which they exchange.[880]

We do find an argument for this labour theory of value in an 1821 book by Roberts Torrens. Torrens distinguished *two stages* in the 'early period of society'.[881] The earliest stage had no private property, no divisions of labour, and little to no exchange, and the law of value could not operate then.[882] If we trust that the classics like Smith and Ricardo too had this much historical knowledge, the criticism against these thinkers that they eternalised bourgeois categories, is neutralised somewhat. Few would disagree that when there is no private property, divisions of labour and no or only accidental exchange, then there exists no law of value (which cannot regulate exchange or price, given that exchange or price do not exist). 'Abolish the divisions of labour, or establish a community of goods, and in either case exchangeable value will be lost'.[883]

Torrens's argument for the validity of the law of value concerns only the *later stage* of the pre-capitalist period of civilisation.[884] That is a society with mere commodity production, not yet divided into wage-labourers and capitalists. The assumption of Torrens's argument is that individual producers can easily move between different occupations. A possible other assumption is that the times of production seem relatively short (a few days at most), so this limits the size of any potential unsold output.[885]

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[880]Marx 1976b, p. 156, our adjustment. Thus Marx dates the beginning of the rule of value from the moment that this second type of exchange-value appeared in history. 'The expanded form of value comes into actual existence for the first time when a particular product of labour, such as cattle, is no longer exceptionally, but habitually [*gewohnheitsmäßig*], exchanged for various other commodities' (Marx 1976b, p. 158). But the existence of the law of value does not yet imply the possibility of crisis. The latter appears only when exchange-value evolved into its final type, money (see Marx 1989b, pp. 138–9). So in its initial stage the law of value is without the possibility of crisis.

[881]And Marx knew this, see summary of Torrens's book in Marx 1986b, p. 536.

[882]See Torrens 1821, pp. 15–9. This means that even in a society with a modern division of labour, the law of value for Torrens can be absent (as an example he mentions the Harmony commune founded by J.G. Rapp in Butler, Pennsylvania, a couple of miles from where Trump was shot).

[883]Torrens 1821, p. 16.

[884]See Torrens 1821, pp. 19–25. This argument was praised by a certain Samuel Read, *Political Economy*, 1829, pp. 236–37. Lionel Robbins (*Robert Torrens and the Evolution of Classical Economics*, 1958) does not mention it.

[885]The unit of time in which Torrens counts labour seems to be one day, leaving aside the possibility of measuring even smaller time-units thanks to water clocks.

> In this state of society, the individual who devotes himself to a particular occupation, must be able to obtain, in exchange for the surplus produce of his labour, such a portion of the things produced by the labour of others, as will place him in a situation at least as good as that in which he found himself when he combined in his own person a variety of employments.[886]

Torrens's argument is basically that if one of the parties in exchange tries to impose unreasonable demands that transgress an equal exchange of values, the other party can always threaten to walk out or immediately stop their work.

Torrens also gives a more complex, specific scenario. Suppose there are two producers that exchange their products with each other. One of the producers, for example a hunter, is reliant on instruments of production (bows and arrows) which the other one manufactures; these instruments increase the productivity of his occupational labour beyond even what the combined output would be when the two of them work in the same occupation (hunting) but without instruments. Torrens claims that this extra-productivity gain in possession of the one who works with instruments in his occupation, nevertheless will be shared equally with the instrument-manufacturer. The manufacturer can insist on an equal share in the hunter's gains by threatening to stop the provision of instruments, which for the hunter would mean that he would need to make them himself and so detract from his hunting-time, and so reduce his own output below what it would be if he just divided equally. They will exchange their products according to equal value.

Even without this specific scenario of immediate reliance, Torrens in general claims that products (in pre-capitalist commodity production) are exchanged according to their value, *regardless of whether they were produced with the help of means of production, or were produced solely by direct labour application*. If those who apply only labour in their production refuse, in an exchange with those who work with the help of instruments of production, to pay over-and-above the value or hours that the latter applied labour directly, that is if they refuse to pay the value of the used-up means of production that went into the product, the latter would just stop providing their product, and those who need it would have to make it themselves and they would not have gained anything thereby, than if they just had accepted the exchange on the basis of equal value.

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[886]Torrens 1821, p. 19.

Marx did not criticise the argument of those specific pages in Torrens, which we just summarised.[887] Although Marx famously poked fun at Robert Torrens over the use of the word 'capital' for any instrument of production in mankind's history (instead of for a specific social relation),[888] obviously Torrens did not claim that wage labour existed since the dawn of civilisation (and also, for Torrens capitalists and a class of labourers by definition did not exist in simple commodity production). '[I]n a country, however extensive, and however populous it might be, in which the divisions of labour were unestablished, and in which each man combined in his own person a variety of employments, and prepared for his family whatever articles they consumed, it is plain that [..] barter and sale, and consequently value in exchange, would be unknown'.[889]

Before we turn to a modern critic of this pre-capitalist argument or proof (similar to Torrens's) for the labour theory of value, let us quote several passages wherein Marx believes in the law of value in pre-capitalist societies, for the sake of those who doubt or deny it.

> The conversion of values [market values] into cost prices [prices of production] is only the consequence and result of the development of capitalist production. Originally [*Das Ursprüngliche ist*] commodities are (on the average) sold at their values.[890]

Marx even faults Adam Smith for doubting the law of value in pre-capitalist societies:

> [S]omething new occurs [*neue Wendung*], apparently (and actually [*faktisch*], in the result) the law of value changes [*Umschlag*] into its opposite. It is [Adam Smith's] theoretical strength that he feels and stresses this contradiction, just as it is his

[887]Rather, Marx objected to Torrens's phrase 'early period of society', which Torrens used a few pages later: 'precisely when exchange value in general, the product as commodity, is hardly developed at all, and consequently nor is the law of value' (Marx 1989b, p. 263, our correction; in German see Marx 1968, p. 68), and this objection already is less categorical than Marx's statement some years before, in the *Grundrisse*, on the same place in Torrens, that 'determination of value by pure labour time takes place only on the basis of production of capital, hence on that of the separation of the 2 classes' (Marx 1987b, p. 169). We thus see that Marx altered the formulation of his objection. But in that subsequent softened formulation, that the law of value is 'hardly developed at all' in the early period of society, Torrens would clearly agree with Marx's objection to the extent that it is about the *earliest stage*, and we believe that Marx would agree with Torrens to the extent that is about the *later stage*. We find another passing statement of Marx in *Capital*: '… a direct exchange of money, i.e. of objectified labour, with living labour, would … supersede [*aufheben*; *supprimerait*] the law of value, which only begins [*gerade erst*] to develop freely on the basis of capitalist production …' (Marx 1976b, p. 676). Apparently, Marx here gives a reason for why the law of value would be invalidated, but the problem is that this reason does not hold: an exchange of money with the services of an independent craftsman (exactly paying for all the performed hours of labour) would be a confirmation of the law of value.

[888]For instance see Marx 1976b, p. 291.

[889]Torrens 1821, p. 13.

[890] Marx 1989a, pp. 542–3. The context of this Marx-quote is given for example by Sandemose 2018, p. 130.

> theoretical weakness that the contradiction shakes his confidence in the general law, even for simple commodity exchange [*selbst für den bloßen Warenaustausch*]; that he does not perceive how this contradiction arises [*eintritt*], through labour capacity itself becoming a commodity [*selbst zur Ware wird*], and that in the case of this specific commodity its use value—which therefore has nothing to do with its exchange value—is precisely the energy which creates exchange value. [...] [Ricardo] is behind Adam Smith in that he does not even suspect that this presents a problem, and therefore the *specific* development [*Entwicklung*] which the law of value undergoes [*annimmt*] with the formation of capital [*Kapitalbildung*] does not for a moment puzzle him or even attract his attention. We shall see later how what was a stroke of genius with Adam Smith becomes reactionary with Malthus [...] against Ricardo's standpoint.[891]

Marx's use of the word 'development' implies a belief in a real historical transformation.
In published form, Marx twice used the term 'simple commodity' in his 1859 *A Contribution*, of which we give Stone's 1904 translation:

> [W]hat seems to [Adam Smith] true from the standpoint of [the] simple commodity [*der einfachen Ware*], ceases to be clear as soon as the higher and more complex forms of capital, wage-labor, rent, etc. take its place. This he expresses by saying, that the value of commodities used to be measured by labor-time in the paradise lost of bourgeois society, in which men dealt with each other not as capitalists, wage-workers, landlords, tenants, usurers, etc., but merely as *plain producers of commodities* which they exchanged [sondern nur als *einfache Warenproduzenten* und Warenaustauscher].[892]

We emphasised the second usage, erased in a later English translation.[893] Stone gives at least an honest effort, but here is our improvement: 'but merely as simple-commodity producers and exchangers'. It is with the above passage (from his 1859 book) that Marx announced in print the concept (but not yet term) of 'price of production'.[894]

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[891] Marx 1988b, pp. 393–4, emphasis by Marx, see also preceding lines on p. 393; in German see Marx 1965, p. 59.
[892] Marx 1904, pp. 67–8.
[893] Marx 1987b, p. 299. Via brazen replacement of 'merely' with 'simply'.
[894] This is claimed by Marx 1989b, pp. 264–5.

In one passage from *Capital* volume three, Marx mentions that prior to mass production (that is prior to capitalist production), price will be determined by value under the condition that there is a sufficiently large amount of a product type brought to the market. This is because, although there was no mass production 'right from the start' like in capitalist enterprises, the number of producers was larger than in capitalism, so their resulting common output already became significant:

> ... even what is produced in smaller amounts, though [*wenn auch*] by many [*vieler*] petty producers in *other*, less developed modes of production [...][895]

In the original, Marx puts emphasis on 'other' (different), in distinction from the capitalist mode: '...und *andre* Productionsweisen ... wenn auch vieler kleiner Detailproducenten ...'.[896] His editor, Engels, inserted 'less developed' ('weniger entwickelte').[897] Engels further added the specification that the output was marketed 'in great quantities in the hands of a relatively few merchants', whereby Engels eliminates a meaning that Marx had left open, namely the scenario of petty producers themselves bringing products to the market, instead of via a few merchants. Marx gave a historical instance of such scenario in the manuscript of *Capital* volume two: 'In the naive beginnings of commodity production, the market time – the purchase time and sale time – counted for the commodity producers themselves as *rest* from labour. The market days of peasants in ancient Rome (*nonae* [or *nundinae*]) and in the Middle Ages were simultaneously holidays'.[898] In Yehud in the fifth century BCE, despite the ideological prohibition of selling on the Sabbath, it required the measure of shutting Jerusalem's gates during that day, in order to physically stop peasants from bringing their goods to the market.[899]

In chapter four of *Capital* volume one, Marx's premise for simple circulation is that neither of the two exchanging parties gets an unequal value from the exchange. Even when Marx considers the possibility of an exchange without equal value, such instance remains just an *accident*, and the *normal* character of such circulation is equal exchange of values:

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[895]Marx 1981, p. 282, our restoration, original see Marx 2012a, p. 256.
[896]Marx 2012a, p. 256.
[897]Mistakingly included even in Marx 2015, p. 291.
[898]Marx 2008, p. 55, our translation. Similar point ('für den kleinen unabhängigen Waarenproducenten') on Marx 2008, p. 58. The text with 'When the commodity owners are not capitalists [...]' of Marx 1978, p. 208 corresponds to Marx 2008, p. 827.
[899]*Nehemiah* 13: 15; and a century earlier see *Jeremiah* 17:21–24. Herodotus tells a story placed in Samos in the sixth century BCE involving a poor fisherman who customarily himself brought his fish to the market, but this one big fish he instead gifted to Polycrates (see *Histories*, book three, chapter 42).

> In the simple circulation of commodities, the two extremes of the circuit have the same economic form. They are both commodities, and commodities of equal value [*Sie sind beide Ware. Sie sind auch Waren von derselben Wertgröße.*]. … The process M-C-M [by contrast] does not … owe its content to any qualitative difference between its extremes, for they are both money, but solely to quantitative changes. More money is finally withdrawn from circulation than was thrown into it at the beginning. … Of course, it is also possible [*Es ist zwar auch möglich*] that in C-M-C the two extremes C–and–C, say corn and clothes, may represent quantitatively different magnitudes of value. The peasant may sell his corn above its value, or may buy the clothes at less than their value. He may, on the other hand, be cheated by the clothes merchant. Yet, for this particular form of circulation, such differences in value are purely accidental. The fact that the corn and the clothes are equivalents does not deprive the process of all sense and meaning, as it does in M-C-M [where money at the end is greater than at the start]. The equivalence of their values [*Gleichwert*] is rather a necessary condition of its normal course.[900]

A bit later in the next chapter, he cites the example of equal exchange of values from a 1767 book by a Physiocrat (Mercier de la Rivière), between a wine-grower and a corn-farmer.[901] He sets aside once more the relevance of the possibility that commodities may sometimes be sold at prices which diverge from their values: 'but this divergence appears as an infringement of the laws governing the exchange of commodities'. He states this is not possible on a systemic basis because his assumption is the perspective of simple commodity producers:

> The seller has himself [*selbst*] produced the commodities or represents their producer, but the buyer too himself produced the commodities [which have been] converted into his money or represents the producer of those commodities. One producer is therefore confronted with another producer. […] The consistent upholders of the mistaken theory that surplus value has its origin in a nominal rise of prices or in the privilege which the seller has of selling too dear assume therefore that there exists a class who only buys and never sells, i.e. thus a class who only consume

[900]Marx 1976b, pp. 250, 252. See a clearer translation of the last sentences in French, Marx 1872, p. 63.
[901]See Marx 1976b, pp. 259–60. That is, these are simple commodity producers.

> and who do not produce. The existence of such a class is still inexplicable from the standpoint we have so far reached, that of simple circulation.[902]

Whereupon he looks for an example of such a class not in the taxpayer-derived modern government-spending on state employees or public infrastructure, but in antiquity. In antiquity the towns of Asia Minor sold their goods to Rome above their value (*prellten*: 'cheated'). The possibility of the existence of such infringement was the existence of a class that can 'only buy' (without selling). This class of consumers, Rome, got its money from the tribute taken from Asia Minor, that is from the producers themselves. Again, Marx explains how the possibility of the towns' violation of the law of value (selling above value) rested on the existence of a non-productive consumer class (Rome) with an ability to 'only buy', but that ability or money of the parasitic class originally was a deduction of value from the producers. Hence the existence of a deviation of price from value does not disprove that labour is the origin of value.

Marx allows for price deviations, and does not think that they invalidate the law of value in simple commodity production:

> Each of the subjects is an exchanger, i.e. each has the same social relationship to the other as the other has to him. As subjects of exchange, their relation is therefore that of equality. It is impossible to find any trace of a difference, let alone of a conflict between them, not even a distinction. Furthermore, the commodities which they exchange are, as exchange values, equivalents or at least count as such. (They could only make subjective mistakes in their valuation of each other's commodity; and if one individual were to cheat the other, this would *not be because of the nature of the social function in which they confront each other*, for this is *the same*; in this they are equal; but only because of the natural cunning, the arts of persuasion, etc., in short because of the purely individual superiority of the one individual over the other. The difference would be a natural one, having nothing to do with the nature of the relationship as such, and which, as further analysis will show, will even be weakened by competition, etc., and robbed of its original force.)[903]

[902]Marx 1976b, p. 264 (our improvement).
[903]Marx 1986a, p. 173.

We give one more passage, wherein Marx says that differences in profit rates do not preclude the validity or existence of the law of value:

> Let us suppose the workers are themselves in possession of their respective means of production and exchange their commodities with one another. ... Under these conditions, the difference in the profit rate would be a matter of indifference, ... just as in international trade the differences in profit rates between different nations are completely immaterial as far as the exchange of their commodities is concerned. The exchange of commodities at their values, or at approximately these values, thus corresponds to a much lower stage of development than the exchange at prices of production, for which a definite degree of capitalist development is needed.[904]

Between primitive communism (pre-civilisation) and the capitalist epoch, there is a considerable history of development of private property and exchange.

> Definite historical conditions are involved in the existence of the product as a commodity. ... Had we gone further, and inquired under what circumstances all, or even the majority of products take the form of commodities, we should have found that this only happens on the basis of one particular mode of production, the capitalist one. Such an investigation, however, would have been foreign to the analysis of commodities. ... The appearance of products as commodities requires a level of development of the division of labour within society such that the separation of use-value from exchange-value, a separation which first begins with barter, has already been completed. But such a degree of development is common to many economic formations of society, with the most diverse historical characteristics.[905]

Since the time when 'men have worked themselves out of their initial animal condition', labour productivity (and control of nature) progressed and allowed for the creation of surplus value (or surplus product), but exploitation of this progress by one class is not a necessity of man's nature (just like cannibalism is not a necessity of, or justified by, nature). Nor were the mastered productive forces the result of the capitalist relation (though defenders of capital may wish to claim so), but instead they were the result of a 'whole series

[904]Marx 1981, pp. 276, 277.
[905]Marx 1976b, p. 273.

of historical circumstances'.[906] The very existence of the instruments of labour (and irrigation canals, roads, and so on), that indicate products were not produced solely by direct labour, also already show that there existed a surplus product. And thus a potential for exchange.

We established that Marx believed in the law of value in simple commodity production. Instruments or in general means of production were owned by the simple commodity producers, and so, besides direct labour, there was also transfer (or recreation) of used-up 'dead labour' from the tools' wear and tear, into the value of the new product.[907]

We turn now to Stanley Williams Moore, a modern critic of both the classics (mainly Ricardo) and Marx for their reliance on a model of simple commodity production (where producers own the means of production as their individual property). In an earlier article, Moore already had endorsed Thomas Malthus's arguments against Ricardo that the law of value does not apply even in simple commodity production.[908] In the face of Malthus's critique, allegedly Ricardo himself retreated (in an unpublished manuscript at the time) from his position, and for Moore this signifies the bankruptcy of the labour theory of value (of Ricardo, but in general, by implication, also of Marx).[909] We think our response below against Moore's own arguments also disposes of Malthus's arguments. Malthus pointed to

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[906]See Marx 1976b, pp. 647, 651. It is not necessarily the result of simple exchange or trade either, as a society with a division of labour can arise even without exchange. On the non-capitalist progress of civilisation, see also Marx 1976b, pp. 283 and following; 'Animals and plants which we are accustomed to consider as products of nature, may be, in their present form not only products of, say, last year's labour, but the result of a gradual transformation continued through many generations under human control, and through the agency of human labour' (pp. 287–88).

[907]The issue for the law of value of the existence of differences (inside one branch, or even between branches) in the amounts of transferred value, or used-up dead labour, per single product by an individual simple commodity producer during the same time of direct labour, is a bit mute, as he employs only one person (himself), unlike the differences of organic composition of *capital* (inside one branch, or between branches), which differ (as to the proportionally more or less used-up constant capital) already because they employ different amounts of persons (proportionally to used-up constant capital). The size of capitalist businesses (and of their means of production) requires multiple wage-labourers as a given, and the difference in proportions of direct labour (variable capital + surplus value) is due to different amounts of workers (the assumption in this capitalist case is that all workers have the same length of working-day). In case of simple commodity production, the producers may exert different times of direct labour per product due to different amounts of transferred dead labour (value from used-up constant 'capital') into a single product, but differences between the producers remain limited (there is only so much time available to one person).

In the scheme of Marx (in *Capital* volume three) depicting branches with different organic compositions of capital, the amount of used-up and employed capital (without surplus value) of each branch is *equal* (each to 100) at the start (before production and the redistribution of surplus-value), but such division of total social capital into *equal*-sized branches, which is a simplification of reality, apparently was not a problem for critics of Marx's theory of value. The output of a whole branch is treated *as if* it were a single commodity, whose value is transformed into a price of production, and again the critics apparently do not object that in reality the output of a branch consists of *several* (a great amount of) commodities, and the value-size of an individual product in reality will be different for all branches, and the question of transformation of value into price of production is about an individual commodity-unit. By the way, on this transformation controversy, even its solution does not constitute proof for the general law of value.

[908] See Moore 1966.

[909] We do not affirm Moore's interpretation of Ricardo.

differences in simple commodity production among branches as to the amount of value of used-up instruments of production (and so on) that is transferred into the new commodity:

> [As for that] cause of variation [namely] the exception noticed by Mr. Ricardo, arising from the greater or less proportion of fixed capital employed in different commodities, the effects of which would shew themselves in a very early period of savage life; [therefore] it must be allowed that the rule which declares "that commodities never vary in value unless a greater or less quantity of labour be bestowed on their production," cannot possibly, as stated by Mr. Ricardo, be "of universal application in the early stages of society."[910]

Therefore, the assumption of the theory of value, that socially necessary labour time is the only factor which determines price, has no proof and is not valid. Marx's definition of value in the first two parts of *Capital* volume one, allows for differences in machine productivity and labour intensity, but apparently it does not consider differences in the size of the transferred value of used-up means of production. A commodity's value depends not just on the labour directly applied, but also on the amount of transferred value of used-up instruments, and so on. As we will retort against Moore, Malthus too left unexplained the starting point, namely of how one simple commodity producer originally and persistently could have a greater value of (used-up) 'constant capital' than another producer. There is an assumption (in Malthus) that the value size of the total 'capital' (variable plus constant) differs among simple commodity producers (from the start and persistently). When the value size of advanced 'capital' (of simple commodity producers) already differs (cumulatively due to different turnover speed of capital, or even with the same turnover speed but with a different advanced capital size) for the different producers, then it is no

[910] Malthus, *Principles of political economy considered with a view to their practical application*, 1820 (first edition), p. 90. This was deleted in the second edition. We quoted just his secondary argument. 'In the second place, Malthus objects, Ricardo's assumption that the ratio of fixed capital to living labour is uniform in the different lines of production cannot be accepted as describing the actual situation in early economies' (Moore 1966, p. 322). Malthus first (primary) argument, in Moore's words, was that 'a great deal more time is required to produce a canoe than is required to produce bows and arrows. Even if the amounts of labour required were equal, the price of the canoe would be greater because of its longer period of production' (Ibid.). Malthus assumes that branches with products with a longer period of production (that is a slower turnover of capital) are unattractive for (impatient) simple commodity producers, so they face a disincentive to flock into them, hence less will be produced of those products, hence their price rises above their value (amounts of labour required); conversely, products with quicker turnover of capital, would have a price below their value. Moore probably was inspired by this for his own argument (as we shall soon discuss). We, unlike Ricardo allegedly (in Moore's interpretation), do not see this as a convincing argument of Malthus. Perhaps Ricardo's alleged retreat was due to just a misreading, probably thinking Malthus was only arguing for the fact that there will be a (different) higher *rate of profit* when there is a quicker turnover of capital (but not that the price will be below value).

wonder that the value size of their outputs will show differences. By contrast, the reasonable assumption for Marx (like we just said in a previous footnote) in the comparison of different branches with varying organic compositions, is that at least the advanced capital sizes are equal (each at a 100), and the turnover speed of capital is the same.

Now, what are Moore's own arguments against the law of value in simple commodity production? Moore posits, that if we add to Marx's model the assumption of *full* (unrestricted) labour-mobility between branches (or occupations), the outcome will be that the simple commodity producers flock into the branches with lower organic compositions (which require less constant capital or means of production), thus increasing the supply of those products, thus resulting in a fall of their price below their value, just as happens in capitalism, so prices would not directly correspond to values even in simple commodity production.[911] According to Moore, full labour-mobility is therefore crucially, – for the success of Marx's argument, – *absent* in Marx's own model.[912]

Our reply to this first case of Moore, where workers can move between branches fully unrestricted: Moore posits that those workers who move out of branches with greater constant capital (higher composition) do so with the incentive of selling off the value of their constant capital ('he can pocket the difference between *c* in the old line and *c* in the new'), while producers for entry into these same branches (with greater constant capital) face the disincentive of 'investing larger amounts for equal incomes' (in Moore's expression). Who would be the buyers of the sold-off value of constant capital in Moore's scenario though?, – if not other simple commodity producers (workers), who thus have enough money available for 'investment'. More importantly, the starting assumption of the model, namely that somehow there are simple commodity producers who possess greater constant capital than others, is left unexplained by Moore (how did they originally obtain so much greater value of means of production?). The labourers with means of production of greater value did not obtain them by having more money or working longer in total, than the labourers with means of production of lesser value. They work less time in the immediate process of production, that is they 'invest' or apply less time in 'variable capital' (proportionally), and that is why they had resources left for greater expenditure on means of production. In branches with less constant capital, workers apply greater time in the immediate process of production, hence their composition is lower, as depicted in the model; in the model these are also the branches which create more 'surplus value' and have a higher 'profit' rate (there

[911]See Moore 1967, pp. 142, 143; a similar objection was raised earlier by Komorzynski 1897, p. 285.
[912]See Marx 1981, p. 278. Marx compares the restricted mobility of means of production between different branches, to that restricted mobility which exists on the world market between countries.

is no profit rate equalisation between branches), but then they own less means of production and spend longer time doing immediate labour (the higher 'profit' comes from 'exploiting' themselves more). We do not deny that Moore's added assumption to Marx's model could be historically realistic (see shortly our historical excursion on peasant proprietors, who could thus sell off their land). What we doubt is that simple commodity producers would actually make use of this mobility on their own will for the sake of a greater self-interest.

In a second case, Moore also considers Marx's own model of *restricted* mobility of the means of production, which hampers competition, and claims in that case prices would not correspond with values either, because when the buyers' tastes or the producers' techniques change, that is when demand or supply change, production output cannot quickly be adjusted.

Our reply to Moore in this case: But could not peasants shift to other produce merely by sowing different crop? Could not metalsmiths (craftsmen) shift to forging other tools depending on the buyers' tastes (sickles, horseshoes, nails)? In the absence of mass production, it is less likely that "overproduction" would occur in simple commodity production. The smaller scale of their output and smaller value of their means of production, the lesser degree of specialisation, and often the combination of work in agriculture with rural industry, imparts to simple commodity producers a certain flexibility, so that they likely would not even need large sums of credit for changing profession as in capitalism (that is for buying means of production relevant for another occupation), even if it was avaliable to them.[913] The number of branches was limited, because the variety of products was less in a pre-capitalist commodity economy. And of the existing number of branches, the extent of the differences in the proportion of constant capital (the differences in composition) between them was limited. Thus we argue that the existence of full mobility of means of production is not necessary in order to see already significant capability of simple commodity producers in practice for switching between different branches.

Moore should have argued, that mobility is restricted *specifically between branches that have different levels of organic composition,* for instance because siimple commodity producers do not have enough money to buy, not in itself *different*, but *more expensive* means of production. He says a surge in consumer *demand* for products, for instance that are produced by a branch with high organic composition, causes their prices rise to above value, and so makes this branch attractive to cause an influx of simple commodity producers,

[913]On transfer of capital between branches with the help of credit, see Marx 1989a, p. 434 and Marx 1981, p. 298. For Marx the existence of the credit system is a precondition for a general rate of profit (transforming values into prices of production). But it is not a precondition for the law of value.

yet the restricted mobility prevents this influx. Perhaps the high demand for the products of the branch can overcome even the disincentive of buying high constant capital for entry into such branch (of which he spoke in his first case), yet, unfortunately says Moore, restricted mobility presents this actual influx. Conversely, a drop in demand that causes a fall of prices below their value, for products in a branch with low organic composition, can overcome even the incentive of low constant capital for the producers staying in this branch, yet, unfortunately says Moore, restricted mobility prevents their actual outflow.

Thus we identify Moore's key argument against Marx is restricted mobility of factors (or means) of production (both labour and capital) between branches. What restricts labour-forces' ability to shift between branches, if we ruled out that it is the too high value of constant capital (or the safety of staying in branches with low value of constant capital)? Monetarily it is attractive (which for Moore in his first case they act on) and (monetarily) possible for simple commodity producers to shift between branches. Recall that Moore is not speaking of the establishment of a general rate of profit, of transformation of market values into (capitalist) prices of production.[914] Rather, he is denying that market values determine prices, that is he is denying the general rule of value in a society of simple commodity producers. It seems to us that Moore interprets Marx's phrase of restriction on mobility (of means or factors of production) as meaning total immobility, as if social obstacles were strong enough to prevent simple commodity producers from shifting between branches even when it was lucrative for them do so. But Marx was not so categorical, he allowed for some (namely restricted) mobility in simple commodity production. It is a matter of degree.

Also, if consumer demand for a certain product drops so that its price falls below value, and the simple commodity producer is, due to a social obstacle, absolutely prevented from moving to another branch, then he will go out of business (if not worse), so the supply of this product will decrease by this drastic way, and its price will rise back to its value.[915]

As to Moore's objection that changes (improvement) in technology of a whole branch would (via the increased supply of the product) result in the price falling below value (given unchanged demand), this seems to assume that a new technology in this particular branch will be adopted wholly by (all producers in) this branch, which causes the over-supply. So in this case it assumes means of production are almost too mobile. Contrast this to the slow mobility of a new improved technology in a branch in spreading itself evenly among different nations in the world market.

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[914]The mobility conditions for this transformation are higher, see Marx 1981, p. 298.

[915]'[T]hough individual producers among the ancients too, did go bankrupt' (Marx 1989b, p. 133).

We will now provide some historical context, or if you will, arguments, for the operation of the law of value in the pre-capitalist era of commodity production.

Recent research on weight systems in Bronze Age Europe indicates early market integration.[916]A 2021 science article in the *New York Times* quotes Dr Nicola Ialongo as saying: '[O]ne of the oldest and most persistent taboos in prehistoric archaeology [is] that "primitive" societies do not have a proper commercial economy'. Even without the technology of balance scales (by weight), a society could have a measurement system and market. So, the Aztecs 'used numbers of easily countable items and volumes of specific commodities to facilitate trade. [...] To prevent the duplicitous exchange of goods, inspectors patrolled open-air markets with the power to punish swindlers, destroy faulty measures, and mark accurate measures with a seal'.[917] There is a potential counter-argument that simple commodity producers would have been careless about the precise equivalent exchanged for their product, due to the reason that it was only a small surplus part of their output. However, the law on carrying a precise stone-weight (*Deuteronomy* 25:13), and many a law against theft, registers the fact that (simple) commodity-owners were not indifferent to the amount of earnings for their surplus.[918] Archaeological evidence showed that the term 'pim' in *1 Samuel* 13:21 was a measuring unit for payments, silver serving as means of circulation.

> Commodity production is not an isolated thing. Look at the context ... Commodity production has existed since ancient times. Buying and selling [in China] began in what history calls the Shang dynasty. The last king of the Shang dynasty, Chou [11th century BCE], was competent in civil and military matters [...].[919]

Pashkov, one of the most important Soviet economists, stressed the antagonistic action of, and qualitative change by, the law of value, against a conception of it held by the mechanistic and idealist camps of Russian Marxists (the latter most prominently in the person of Isaak Rubin), who reduced it to a law of exchange or price.

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[916]For instance, see Ialongo and others 2021.

[917]Teresa Duncan 2019, 'Before the Melting Pot: Pre-Columbian Weights and Measures', online at nist.gov/blogs, which clarifies a passage from Prescott's *History of the Conquest of Mexic*o that Marx excerpted in 1851 and repeated in the *Grundrisse*, see note Marx 1987b, p. 215.

[918]'It is a matter of indifference to the capitalist whether his commodity contains more or less *unpaid labour* than other commodities, * if into its price enters so much of the general stock of unpaid labour, or the surplus produce in which it is fixed, as every other equal quantity of capital will draw from that common stock.* In this respect, the capitalists are "communists"' (Marx 1989b, p. 273).

[919]Mao 1958, 'Critique of Stalin's *Economic Problems Of Socialism In The USSR*'.

Pashkov wrote of the difference between 'social value' and individual values. The existence of unequal labour exchange under the general law of value means, that due the action of the law of value itself some of the commodity producers (of a product type) acquire more money than others. The power of money concentrated in the hands of these few, can transform into capital.[920] Pashkov quoted Marx:

> The antagonistic nature of bourgeois production is, moreover, expressed in the antithesis of buyer and seller in such a superficial and formal manner that this antithesis exists already in pre-bourgeois social formations, for it requires merely that the relations of individuals to one another should be those of commodity owners.[921]

The lack of a general (equal) rate of 'profit' translates as inequality (of income) among producers of different products, and this inequality exists also among producers of the same product type, given that there is a uniform price. When Marx creates the binary, either of the fictional '*mild* [simple] commodity circulation and its [*mild* social] corresponding relations', or of the real historical, unequal 'relations of *violence* [that at once set in] with the historical disintegration of [primitive] communities',[922] – this still conceded too easily to a sanguine image about mere commodity circulation. Marx implicitly accepts its mildness, because he contrasts it to capitalism:

> [Bastiat's] chatter about considerations of fairness and justice only amounts to this: he wants to apply the property or legal relationships corresponding to simple exchange, as a standard for the property and legal relationships of a higher [namely

[920]The differentiation within simple commodity production leads to a new, capitalist mode of production, see Pashkov 1935, p. 93–4. Pashkov (1900–88) held that even 'concrete labour' was a specific historical category for Marx, and so does not exist in socialism (Pashkov instead prefers with Marx to speak of the 'natural form' of labour, see Pashkov 1935, pp. 88–9.).

[921]Marx 1987b, pp. 331–2.

[922]Marx 1987b, p. 463, our emphasis. This is from a draft to *A Contribution* (1859), namely its section 'Manifestation of the law of appropriation in the simple circulation', which is a key passage for understanding 'simple circulation', which means non-capitalist commodity exchange, according to equal values. And, as we saw before, for Marx this law of value can be valid even before the final type of exchange-value (money proper) has developed: 'They confront each other only as possessors of exchange values and as those in need of exchange, as agents of the same general indifferent social labour. Moreover, they exchange exchange *values of equal magnitude*, for it is presupposed that there is an exchange of equivalents. … The reciprocal satisfaction of their wants by means of the physical difference of their labour and their commodity makes their equality a relation filled with social content, and their particular labour a particular mode of the existence of social labour in general. *Whenever money is involved, it is so remote from abolishing this relation of equality* that it is, in fact, its real expression' (Marx 1978b, pp. 471, 472, our emphasis).

> the capitalist] stage of exchange value. Therefore Bastiat himself, unconsciously, re-emphasises the moments in simple circulation which tend to give rise to capital.[923]
>
> The law of appropriation in this sphere, [namely] appropriation by labour, [that is] the exchange of equivalents, appears in such a way that exchange simply returns the same [equal] value in another material form. In short, while everything may be 'lovely' here [*es ist hier alles 'schene'*], it will soon end in terror [*ein Ende mit Schrecken nehmen*] and this as a result of the law of equivalence. For now we come to capital.[924]

Marx recognised the fact that inequality may arise under the general law of value (in simple commodity production), but he almost offers an apologetic for it:

> With money figuring as material for accumulation and hoarding, the equality may at first appear to be sublated since the possibility arises for one individual to enrich himself more, to acquire a greater title to general production than another. However, [in the simple circulation] no individual can extract money at the expense of another. He can take in the form of money only that which he gives in the form of commodity. The one enjoys the content of wealth, the other takes possession of its universal form. If one is impoverished and the other enriched, that is a matter of their good will, their thrift, industry, morality, and so on, and does not at all follow from the economic relations themselves, the relations of commerce, in which the individuals confront each other in circulation.[925]

Marx's writings then did not yet distinguish individual values and the market (social) value, which he did a few years later in *Theories of Surplus Value*.[926]
There are intermediary forms and more complex historical variations of the 'terrible and arduously accomplished expropriation of the mass of the people [that] forms the pre-history of capital'.[927] Lenin's analysis of the rise of *capitalism* in Russia did not leap directly 'at once' from the dissolution of the primitive community, but dwells on the evolution through simple commodity production, with the intermediation of the merchant putting-out system (formal

[923]Marx 1986a, p. 245.
[924]Marx 1983a, p. 303, our adjustment.
[925]Marx 1987b, p. 474.
[926]See Marx 1988b, p. 319.
[927]Marx 1976b, p. 928.

subsumption of labour under capital). This system could arise 'non-violently' from a division of labour by the simple commodity producers themselves.[928] Plekhanov gave a sobering picture of the tendency of differentiation still within the Russian village community.[929] The Israelite social reform of a Jubilee (the return of fields to their original owners, who had sold the property) likely did not overcome such social differentiation, given that it happened once every half century (and the owners meanwhile could have died).

Engels likewise did not hold a sanguine view of pre-capitalist commodity exchange, as some 'paradise lost of bourgeois society'. This remark from Engels's 1882 manuscript on the Franks paints far from a rosy picture of the society which existed many centuries prior to the French Revolution, the Fronde and the Jacquerie:

> The allodium made the transformation of the original equality of landed property into its opposite not only possible but inevitable. From the moment it was established on formerly Roman soil, the German allodium became what the Roman landed property adjacent to it had long been—a commodity. *It is an inexorable law of all societies based on commodity production and commodity exchange that the distribution of property within them becomes increasingly unequal, the opposition of wealth and poverty constantly grows and property is more and more concentrated in a few hands*. It is true that this law reaches its full development in modern capitalist production, but it is by no means only in it that this law operates. From the moment therefore that allodium, freely disposable landed property, landed property as commodity, arose, from that moment the emergence of large-scale landed property was merely a matter of time.[930]

What Engels wrote there on Merovingian Franks holds also for the expropriation of land property in the Israelite kingdoms, and further back, in case of the Lagash kingdom certainly already in the twenty-fourth century BCE (see the social reforms by king Urukagina against forced sales of lands). Marx himself noted this tendency in ancient Israel, as well as in Greece and Rome.[931] Marx's line in *On the Jewish Question* (1843) that '[t]he view of nature attained under the domination of private property and money is a real contempt for, and practical

[928]In a group, one of the producers gets assigned the exclusive role of seller of all the group's products, see Lenin 1899, pp. 362–4.
[929]See chapter three in *Our Differences*, 1885.
[930]Engels 1990, p. 60, emphasis ours.
[931]See Marx 1986, pp. 403–4; also see pp. 410–11: [...] the modification of this economic premiss, which is brought about by its own dialectic, impoverishment, etc.' [...] the concentration of landed property, exchange, a monetary economy', and pp. 418–19 and following.

debasement of, nature', – was backed by a quote from Thomas Müntzer that was inspired by the rebuke of prophet Isaiah (5:8) of this social evolution.[932] Also, compare Engels's description of the Church's acquisition of land among the Franks, with how Hebrew peasants put up lands (valued in terms of silver) to priests, that in case of default became the priests' property.[933]

There is a criticism that '[t]he Marxian conception of a progression of historical stages has fostered the erroneous notion that land was not "commodified" until a postulated transition from feudalism to capitalism, a transformation that Karl Polanyi asserted did not occur in Europe until after the Middle Ages'.[934] This is untrue in general and of Marx himself. Marx made no quarrel with the claim, written in 1833, of Richard Jones, that peasants in the 'peculiar state of ancient Palestine' were of a proprietor-type, like those in contemporary France, Germany, America and Australia,[935] while those of ancient Greece were not. So, in the United States '[t]he title to land is essentially allodial', wrote James Kent.[936] Furthermore, Marx wrote:

> In various places in *Capital* [volume one] I allude to the destiny of the plebeians of Ancient Rome. They were originally free peasants cultivating their own plots of land on their own account. In the course of Roman history, they were expropriated. The same movement which cut them off from their means of production and subsistence involved [*impliqua*] not only the formation of large landed property but also [*mais encore*] the formation of large money capital [*grande capitaux monétaires*].[937]

Engels in the 1880s first used the term 'simple commodity' merely in the context of the legacy of the legal rules of ancient Rome.[938] By ‘simple commodity production’ we understand not just an exchange of produced things, but also of services. Marx himself used a Roman legal rule to illustrate a sale of a service in simple circulation:

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[932]Luzzatto's commentary refers here also to *1 Kings* 21, ninth century BCE, where Elijah rebukes king Ahab, which in turn another commentator connected to the earlier warning of *1 Samuel* 8:1. See also Micah (2:2) and Amos 2:6 with Rashi's comment, and Amos 8:4; referenced also in the Palestine chapter of Max Beer's *Social Struggles in Antiquity,* 1922.
[933]See *Leviticus* 27, which is 'one of the oldest passages of the Torah' according to Kaufmann 1960, p. 190.
[934]Ellickson, Thorland 1995, p. 376.
[935]See Marx 1990, p. 334.
[936]*Commentaries on American Law,* 1844; for allodial lands among pre-Norman Saxons see David Hoffman, *Legal Outlines* volume one, 1829, p. 548.
[937]Marx 1989c, p. 200.
[938]For instance Engels 1990 [1886], p. 392.

> within the relation of simple circulation. Both parties in fact exchange only use values with each other; the one means of subsistence, the other labour, a service, which the former wishes to consume either directly—a personal service—or he supplies the latter with the material, etc., in which that other person supplies him, through his labour, by the objectification of his labour, a use value designed for A's consumption. E.g. when the peasant takes into his house a tramping tailor, such as existed in the past, and gives him the material to make clothes with. Or if I give money to a doctor to patch up my health. What is important in these cases is the service which the two perform for each other. *Do ut facias* appears here on quite the same level as *facio ut des* or *do ut des*. ["I give that you may make", "I make that you may give", "I give that you may give" (contractual formulas in Roman law), *Corpus iuris civilis*, *Digesta* XIX, 5.5.][939]

The Visigothic Code documents laws concerning property and business transactions in pre-Islamic Spain.

The rings in *Beowulf*, called *beaga* (from the meaning 'bend', in modern Swedish: *böja*), worn on neck or arm among the sixth century (Scandinavian) Geats, served also as money. This is dropped from view in *Beowulf*'s 'stylised construction of acts of exchange [bound up with what were thought to be ancient and courtly ideals] [that] does not necessarily bear much resemblance to how the rest of society carried out its business', because the English poet or his audience had an aristocratic background, which enjoyed clothing itself 'in the trappings of an imagined heroic past replete with gifts and distant from commerce'.[940] Even when in a pre-capitalist economy most transactions were in kind, this does not prove that it was a barter economy, for when there is a 'nominal unit of account' or measure of values (*Maß der Werte*), that already is the first function of money.[941] The main Marxist journal in Soviet Ukraine presented and discussed the arguments of Alfons Dopsch (*Die Wirtschaftsentwicklung der Karolingerzeit, Vornehmlich in Deutschland*) for the existence of a monetary economy in Germany in the Carolingian era.[942]

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[939]Marx 1986a, p. 393. See on Roman law also Marx 1987b, pp. 470, 475, and in passing in *Debates on the Law on Thefts of Wood*, 1842.

[940]Naismith 2016, pp. 383, 384.

[941]In one instance Marx forgot to list it: 'The various forms of money (money as the mere equivalent of commodities, as means of circulation, as means of payment, as hoard, or as world money) indicate very different levels of the process of social production, according to the extent and relative preponderance of one function or the other. Yet we know by experience that a relatively feeble development of commodity circulation suffices for the creation of all these forms. It is otherwise with capital' (Marx 1976b, pp. 273–4, our adjustment).

[942]See Pakul' 1928, pp. 145–55, pp. 156–63.

The brutality of simple commodity production for Marx is depicted in his 'Comments on James Mill' (early 1944) in a harsher fashion than in the 'economic' first chapter of *Capital* (though there is continuity of the basic thought). 'Our *mutual* value is for us the *value* of our mutual objects. Hence for us man himself is mutually of *no value*'.[943]

Admittedly, the brutality of the law of value that we found in pre-capitalist history looks mild in comparison to that found in the capitalist manufacture era (starting already after the moments of primitive accumulation). Marx's term of a 'commercial war' (*Handelskrieg*) was not a mere figurative expression for protectionism, but actual war (with naval battles and such).[944] He meant a then 250-year old (and still ongoing) global war over redistribution of

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[943]See Volume 3 of *Collected Works*, p. 227. Marx is saying this about simple commodity producers, see pp. 225 and following. See also earlier, which is again not yet about capitalist relations: 'Why must private property develop into the money system? Because man as a social being must proceed to exchange and because exchange —private property being presupposed— must evolve [*zum*: to] value. The mediating process between men engaged in exchange is not a social or human process, not a human relationship; it is the abstract relationship of private property to private property, and the expression of this abstract relationship is value, whose actual existence as value constitutes money. Since *men engaged in exchange do not relate to each other as men*, things [which are exchanged] lose the significance of human, personal property. The social relationship of private property to private property is already a relationship in which *private property is estranged from itself*. The form of existence for itself of this relationship, *money, is therefore the alienation of private property,* the abstraction from its specific, personal nature. … [M]oney represents originally … : 1) private property for private property; 2) society for private property; 3) private property for society.… [Similarly,] Christ represents originally: 1) men before God; 2) God for men; 3) man to people. … *But Christ is alienated God and alienated man*. God [private property] has value only insofar as he represents Christ [money], and man has value only insofar as he represents Christ [money]' (Marx 1844, 'Comments on James Mill', pp. 212–3, our adjustment and emphasis). The third step is the worst for Marx, as non-alienated (useful) private property should not be represented by money. Similarly, people should not be represented by some particular (abstract) man (Christ). '[Linen's] existence as value [*Wertsein*] is manifested in its equality [*Gleichheit*] with the coat [namely the equivalent, or, later, money], just as the sheep-like nature [*Schafsnatur*: the sheepish existence] of the Christian is manifested in his equality [*Gleichheit*] to the Lamb of God [namely Christ]. … For a society of commodity producers, whose general social relation of production consists in the fact that they treat their products as commodities, hence as values, and in this material [*sachlich*] form bring their individual, private labours into relation with each other as homogeneous human labour, Christianity with its religious cult of man in the abstract … is the most fitting form of religion (Marx, chapter one of *Capital*). '[T]he essence of religion—deified man [namely Christ] as a particular religion' (Marx 1843, Contribution to the Critique of Hegel's Philosophy of Law). Marx's opposition of property to money is also found in *The Essence of Money* (Moses Hess): 'We can indeed acquire and obtain some of this dead, soul-less, inorganic matter [money], some of this rubbish … but we do not thereby have any real living property or social possession, something which determines and conditions our life and our activity [*Wirken*: working] in society, our social activity, but [obtain] merely the materialised Christian God, the *Ghost* [*Geist*] or S*pirit* [*Spiritus*] in which we can conserve our *earthly corpse*, maintain it in a dead, stone-like *existence*. Money can never ever become *property* [*Eigentum*]; it must rather be considered by all not yet corrupted human nature as something so external, so little the property of [*nicht Eigentümliches*: *not* belonging to] man that the intimate attachment between the possessor and his possession which constitutes the character of any true and real property appears here as the most revolting and despicable depravity. He who on the other hand identifies with his property, with his real social possession, to the point of being as intimately attached to it as the soul is to the body; the man who fills his post so fully that a separation of him from his sphere of activity [*Wirkungskreise*: field of working] is just unthinkable (a phenomenon that is now the exception because money is now the content of all social efforts), is a man of honour, a true man [*echter Mensch*]. For it is not the Christian and philosophical *elevation* [*Erhebung*] above the *common* [*gemeine*: ordinary practical] life, but the *devotion* [*Hingebung*] [to practical life], the *life* and *activity* [*Wirken*: working] for others that makes man man'. The modern emphasis on international 'fair trade' is thus Christian in the above sense.

[944] See Marx 1976b, p. 915.

resources among European states (beginning almost exactly in 1600 with the entry of the Dutch on the global stage).

> In order to get possession of Malacca, the Dutch bribed the Portuguese governor. He let them into the town in 1641. They went straight to his house and assassinated him [...] Wherever they set foot, devastation and depopulation followed. [...] That is the *doux commerce* [peaceful commerce]!'[945]

This trade war between European ruling classes continued throughout the 1700s (for instance the Carnatic wars[946]), with France's defeat in 1815 signifying the end of its (original) overseas possessions. Simple commodity producers do not embark (or gain by) such brutal wars (for trade or market access), as they themselves alone remain the ones working (without slaves under their command), so a greater market would mean they have to put in more labour time. Perhaps for artisans access to greater markets and different populations would be beneficial, but they would not go to war with each other to cut off access for their competitor-artisans (anyway they cannot do so even if they wanted, because they do not have enough money to hire armed forces).

After this historical context, let us dwell on one particular term which Engels introduced in his description of Marx's view. This will be also relevant to the law of value in capitalist international trade (see our section five). Engels wrote:

> Marx's law of value applies generally [*allgemein*],[947] as much as any economic laws do apply, for the entire period of simple commodity production, i.e. up to the time at which this undergoes a modification [*eine Modifikation erfährt*] by the onset of the capitalist form of production. Up till then, prices gravitate to the values determined by Marx's law and oscillate around these values [...].[948]

Engels's choice here of the term 'modification' is unfortunate, because this was the same term Ricardo had used (in English), namely in section-headings four and five of his book's

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[945]Marx 1976b, p. 916. On distribution established by conquests ('history') as part of the study of production, see Marx 1987b, pp. 33–5.

[946]See Marx's chronology pp. 61 and following in *Notes on Indian History (664–1858)*, Foreign Languages Publishing House, Moscow 1947.

[947] Our adjustment. Official translation was 'universally'.

[948] Supplement of Engels in Marx 1981, p. 1037. The supplement 'Law of Value and Rate of Profit' of Engels, added to *Capital* volume three.

first chapter; '... a considerable *modification* to the rule ...';[949] section seven: '... accumulation of capital [...] introduces a considerable *modification* to the rule which is of universal application in the early states of society'.[950] We argue that Marx understood this term in the sense of 'invalidation', and hence criticised Ricardo for writing of a 'modification' (granted, Engels evidently understands the term 'modification' in a weaker sense, as 'variation', but still, his choice of this term is unfortunate).[951] Marx himself speak of 'contradiction', but that is not 'invalidation'. We summarise Marx's views as follows: Marx criticised Ricardo for conceiving of prices of production as a *modification* of the law of value itself, that is for viewing prices of production as an 'invalidation' [official translation of *aufheben*] of the law of value. At the same time Marx criticised Ricardo for viewing prices of production as a minor exception, mere variation, a mere 'subsumption' under the law of value, whereas for Marx they are a contradiction (noun) to it; while against Ricardo's critics Marx insisted that prices of production *confirm* the law of value, and do not contradict (verb) it. Here are the passages we relied on for our above summary:

> Ricardo's method is as follows: He begins with the determination of the magnitude of the value of the commodity by labour time and then *examines* whether the other economic relations (categories) *contradict* this determination of value or to what extent they modify it. [This method] omits some essential links and *directly* seeks to prove the congruity of the economic categories with one another.[952]
>
> [T]he developed relations of bourgeois production [...] are confronted with their principle—the determination of value—and examined in order to determine the degree to which they directly correspond to this principle and the position regarding the apparent discrepancies which they introduce into the value relations of commodities.[953]
>
> Instead of *postulating* this *general rate of profit*, Ricardo should rather have examined in how far its *existence* is in fact consistent with the determination of value by labour time, and he would have found that instead of being consistent with it, *prima facie*, it *contradicts* it, and that its existence would therefore have to be

[949]Ricardo 1821, p. 35.
[950]Ricardo 1817 edition, p. 50.
[951]The term 'modification' also has significance in the Soviet dispute (Dashkovsky, Petrov and Tsagolov) about how Marx (and Ricardo) viewed the application of the law of value on the international level. For Dashkovsky, Marx's term there meant 'violation' (*narushenie*), and he criticises Marx for this.
[952]Marx 1989a, p. 390.
[953]Marx 1989a, p. 394.

> explained through a number of intermediary stages, a procedure which is very different from merely including [*einfacher Subsumtion*] it under the law of value.[954] Because Ricardo, instead of deriving the difference between cost prices [prices of production] and values from the determination of value itself, admits that "values" themselves (here it would have been appropriate to define the concept of "absolue" or "real value" or "value" as such) are determined by influences that are independent of labour time and that the law of value is sporadically invalidated [*stellenweis aufheben*] by these influences, this was used by his opponents, such as Malthus, in order to attack his whole theory of values.[955]

Some hundreds of pages later, Marx repeats this argument when he mentions Ricardo's term 'modification':

> The points of departure for Malthus' attack are [...] the way in which Ricardo conceives the equalisation of cost prices [prices of production] in different spheres of the employment of capital as a modification of the law of value itself ...'. Malthus accepts this weakness 'from Ricardo in order to be able to overthrow the Ricardian fundamental law of value, etc., by using this confusion [...].[956]

Further, Marx writes that prices of production 'confirm the law of value instead of contradicting it' and 'the very existence' of prices of production 'can be conceived only on the foundation of value and its law' and 'becomes a meaningless absurdity without that premiss'.[957]

2. Foreign trade as (cheap) imports and its effect on the rate of profit

The section ‘Foreign trade’ (within chapter fourteen: counteracting factors to the law of the falling rate of profit), so-titled by Engels in his editing of Marx’s *Capital* volume three, starts with a passage that deals with the scenario of cheap imported commodities. We briefly give our exposition of the passage in Marx’s original words. Our exposition is very

[954]Marx 1989a, p. 401; same point also see Marx 1989b, pp. 261–2.
[955]Marx 1989a, p. 416.
[956]Marx 1989b, p. 210.
[957]See Marx 1989b, pp. 272–3, in English in original.

straightforward (indisputable). Yet we forewarn that it will be controversial, as it apparently conflicts with Marx's basic thoughts elsewhere (which is likely why Engels edited it the way he did). And we challenge also some of Marx's other writings (or interpretations of them) (namely his comments on Ricardo).

Engels felt the need to edit the passage, which he drastically did in the opening sentence. The edits by Engels are as follows:

> In so far as foreign trade cheapens on the one hand the elements of constant capital and on the other [cheapens directly] the necessary means of subsistence *into which* variable capital *is converted*,[958] it acts [*wirkt*] to raise ['two elements of': this was deleted by Engels] the rate of profit *by raising* [added by Engels, absent in original, instead just a comma or semicolon ;] the rate of surplus-value and *reducing* [added by Engels, absent in original] the value of constant capital.
>
> It has a general effect [*Er wirkt so überhaupt*] in this direction [*nach der Seite hin*] in as much as [*als*] it [that is foreign trade] permits the scale of production to be expanded.
>
> In this way [*grade nach dieser Seite hin*: Engels deleted the word 'exactly'] it *accelerates accumulation* [in original this is at the end of the sentence], while it [that is foreign trade] also [*ebenfalls*] accelerates [*wirkt*] the fall in the variable capital as against the constant, and hence the fall in the rate of profit.[959]

We highlight again now the first sentence with just the changes relevant to us. Marx's original:

> In so far as foreign trade cheapens on the one hand the elements of constant capital and on the other the necessary means of subsistence into which variable capital is converted, it acts to raise *two elements of the rate of profit; the rate of surplus-value and the value of constant capital.*

Engels's edit:

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[958]This formulation (with our emphasis) inserted by Engels usefully specifies that it is about means of subsistence only insofar as they will be used by productive workers, that is variable capital. We do not dispute this edit.

[959] Marx 1981, p. 344 (for Marx's original, see Marx 2012a, p. 306; translation of original, see Marx 2015, p. 341). We have split these three sentences into separate paragraphs for clarity.

> In so far as foreign trade cheapens on the one hand the elements of constant capital and on the other the necessary means of subsistence into which variable capital is converted, it acts to raise *the rate of profit by raising the rate of surplus-value and reducing the value of constant capital.*

According to Engels's edit, the value of constant capital is *reduced* (Engels must be thinking, due to cheaper imports of elements of constant capital, cheaper – conceived of at the level of a commodity-unit) and so the rate of profit initially first *rises* (according to Engels's edit).[960] This interpretation of Engels at first sight seems logical, especially considering that the section is part of a chapter listing factors that counteract the law of the falling rate of profit. But if his interpretation were true, then it seems unclear to us why, thereafter, the organic composition (c / v) would rise, that is why there would be an acceleration of the fall of the value of variable capital (v) compared to that of constant capital (c), and somehow, in this second sequence, *alter* the path of the general profit rate, now instead into a downwards direction. In our view Marx, in all the three lines, simply speaks *only* of a *fall* of the rate of profit, and not also an initial rise as Engels believes. The section as a whole does not end with the passage we quoted and Marx after it does discuss a case of a rise in the rate of profit, but so in our view he does not do so in the passage which we are now analysing. Even according to Engels's edit of the passage, the profit rate eventually still falls (despite, or because of subsequent consequences, of cheaper imports). But so for Engels, unlike us, there is an initial rise in the profit rate due to cheaper imports.

By the way, when Marx speaks of 'elements of constant capital', it is likely that he primarily thinks of raw materials that get processed (as circulating capital), and not of fixed capital, for if cheaper goods for use as fixed capital somehow could be imported, then still the fact remains that the value of existing fixed capital would take some time to be transferred fully (wear and tear of machinery, factory buildings), and replacing it before that date would mean the previous investment would be lost. And likely he means those elements of constant capital that are involved in production of means of production.

When the elements of constant capital which are involved in production of means of subsistence get cheaper, the latter, which are elements of variable capital, get cheaper (too as a consequence). So, import of cheaper elements of constant capital (for instance cheaper agricultural equipment, cheaper fertilisers) by itself (without actual import of cheaper foreign foods) can make the domestic variable capital cheaper. We recall this to dispel the

[960]The rate of profit = surplus value / (constant capital + variable capital), or in symbols: r = s / (c + v).

belief that only cheap imports of foods (means of subsistence) themselves have this effect on variable capital.

An exact reading of Marx's original lines (unedited by Engels) sees him start by claiming that *two elements of* the profit rate rise; both the rate of surplus value (s / v), and the value of constant capital *rise*. He does not say (as Engels's edit implies) that the profit rate itself rises; rather, two of its elements rise.

It is perfectly possible that the rate of surplus value (which is surplus value divided by variable capital) rises whilst the rate of profit falls. Furthermore, the rate of surplus value can rise whilst the absolute *mass* of surplus value remains unchanged (the rate rises because the variable capital falls). This is counter to the belief that if *v* fell from (for example) 40 to 30, likewise *s*, with a rate of surplus value of 200%, must fall from 80 to 60; instead we keep *s* unchanged at 80, so (*s* + *v*) falls from 120 to 110 (and not to 90). Or it is counter to the belief that if *v* fell from 40 to 30, *s* must obtain these 10 and rise from 80 to 90 (so *s* + *v* stays 120 as before). In both such beliefs the mass of *s* must change (a belief which we oppose). Thus, for us the rate of profit can fall whilst variable capital falls, on the condition that *constant capital rises* to a greater absolute extent (than the variable capital fell). Marx's phrase 'value of constant capital' could perhaps mean its relative proportion (in the whole of society) or, more likely, simply its absolute total amount (not on the level of a commodity-unit, for on that level of a unit there is no rise).[961]

The next sentence repeats the word '*wirkt*' (obscured in the English translations), and it is clearly still an explanation of the previous sentence: Marx means that (as one of the two elements, for instance) the value of constant capital only rises insofar as a condition has been satisfied, namely the condition that the scale of production has been expanded (see the quote). If capitalists were to reduce the *total value* of the imported goods which they buy (the case in Ricardo's passage which we will shortly discuss below in the present section) because they only want the same quantity of goods as before, then this condition is not met. We believe an expanded scale of production causes (that is '*wirkt*', acts in the direction of) the value of constant capital to rise, primarily in the sense that proportionally more means of production are produced or in operation (so a double sense). We mean that the cheaper food imports reduce the need for (that is replace) domestically produced output of articles of consumption, which are usually made by branches with a lower-than-average organic

[961]Admittedly, in 'certain cases, the mass of the constant capital elements may increase while their total value ... falls' (Marx 1981, p. 343).

composition; and this freed-up capital can shift to branches producing means of production, which are branches that are usually of higher organic composition.

The third sentence too contains the word '*wirkt*' (this indicates that it is all part of one and the same thought). Engels's shifting of the phrase 'accelerates accumulation' to the beginning of the sentence, slightly obscures that Marx is still explaining that the expanded scale acts in the direction of a rise of an element of the rate of profit, for instance the rate of surplus value, which is a fall of the value of variable capital, and so, from this side, there is a fall of variable capital against the constant. So, in addition to the rise of the value of constant capital, there is moreover this fall of variable capital: each can raise the organic composition independently, but also both at the same time from their side. Furthermore, this third sentence repeats the word '*Seite*' (direction) from the second sentence (obscured by the translations); 'foreign trade acts (by expanding the scale) in the exact same direction' (still in reference to the first sentence). The part that Marx ends on, namely 'accelerates accumulation', is just a restatement of his precondition, namely that foreign trade expands the scale of production. In our interpretation these lines only argue that foreign trade causes a *fall* of the rate of profit.

Next, directly after these three lines (and still in connection with them), Marx points to the capitalist necessity to export, otherwise there is overproduction (which Ricardo overlooked). He thus repeats the assumption of an expanding scale of production (in the wake of cheaper imports). We will address this assumption, which Ricardo allegedly 'overlooked', in a moment.

And only after this, Marx turns to an '*other*' ('*andre*': obscured by the English translations with 'further')[962] question; whether *capital invested* in foreign trade raises the general rate of profit, and so addresses whether foreign trade is a counteracting influence (to the rate of profit to fall). If one holds (like Engels) that the earlier three lines already deal (partly) with the question of the *rise* of the rate of profit, then it becomes odd that when Marx really starts addressing this question, he declares that he now turns to a *different* (other) question. His wording about a different, special issue, is supporting evidence (as we posit in our section five) that he turns to the issue of foreign direct investment, and no longer simply is talking about foreign trade (as simple circulation, as import or export). The formulation of the first issue (in the three lines) was: 'In so far as foreign trade cheapens [...]', whereas the formulation of the different, second issue now is: '*Capital invested in* foreign trade [...]'. But,

[962] See Marx 1981, p. 344; Marx 2015, p. 341. 'Eine andre Frage, die in ihrer Specialität eigentlich jenseits der Grenze unsrer Untersuchung liegt [...]' (Marx 2012a, p. 306).

nevertheless, we will at first (in our section three) assume that it just about trade in the strict sense (and not foreign direction investment).

Perhaps our exposition of the quoted passage (three lines) remains far-fetched to some, or conflicts with Marx's basic thoughts. We will now defend our exposition of the passage with a discussion of some other writings of Marx that involve Ricardo.

A basic thought of Marx is that the general rate of profit can *rise* indeed due to a reduction of (the total value of) the type of constant capital that even is not involved in production of means of subsistence (again, whence probably Engels changed Marx's words from 'raising' to 'reducing' the value of constant capital). This reduction of the value of constant capital (of the type that is involved only in production of means of production) can happen without the imported equipment being itself more productive in a technical sense, and then it means the number of workers stays the same. If the imported equipment is both cheaper and more productive, then the number of workers will fall. As Marx wrote that the value of constant capital rises, he must think the rate of profit falls. Let us suppose Marx meant cheaper, but not more productive, elements of constant capital are imported. Their quantity is increased while their individual value fell, so their total value stays the same. But how then is this total value ultimately raised for Marx? Due to the fact that there are now imported a greater quantity of (and not because they are more productive) elements of constant capital, they will be used to produce a greater quantity of new commodities, and the kind we focus on are means of production. But the total *value* of this latter greater quantity of new means of production only rises when more workers are involved in their production. We mentioned that without the imports being more productive, the number of workers per means of production stays the same. So, as the cheaper imports of constant capital increased in quantity, more workers need to handle them, and so there is a raising of the produced total value of new commodities, which we wrote for Marx are likely means of production (not means of subsistence). The value of constant capital rises because more workers are employed to handle the increased quantity of imported elements of constant capital. Engels (by contrast) must have made the assumption that the cheaper (per unit) imports were at the same time also more productive (in a technical sense),[963] so, less workers are required to handle them, in which case after being processed into new commodities, for instance means

[963] Again, as Engels and Marx likely thought primarily about cheaper imports of raw materials (and not fixed capital), then raw materials that are more productive would mean of a different type or better quality that requires less labour to process. The assumption of higher productivity of the imports likely suggested itself to Engels because of Ricardo's (and Marx's) analogy of extension of foreign trade, to introduction of improved machinery, as to both of their effect on the profit rate.

of production (constant capital), their total value would be reduced, given that less workers were required.

Marx assumes that (due to cheaper imports) the capitalists will buy a *greater* quantity of imported goods, so the amount of money expended stays the *same* (and even in case less is expended on variable capital, any of the savings from this will be used instead for the expenditure on raw materials, and so on), and the *total value* of bought goods ($v + c$) at least *is not reduced*.

We counterpose Marx's assumption (of expanded production, in the three quoted lines) to an argument in Ricardo involving two cases. The difference with the Marx-passage lies in the fact that Ricardo, in his first case, assumes that due to cheaper imports the capitalists will buy the *same* quantity of goods as they did before, and this means the *total value* of bought goods ($v + c$) *is reduced*. For Ricardo, as a 'consequence of [a capitalist's] diminished expenditure [that is, because] the generality of the commodities [which are bought] fell 20 per cent in value [due to cheaper imports], [the capitalist] should be enabled to save [that is, 'accumulate'] as effectually *as if* [his amount of earnings from his sales] had been raised 20 per cent [let us call this Ricardo's second case]; but [the difference is that in the first case, of the capitalist's diminished expenditure due to cheaping of goods] the rate of profits is stationary ... [That is, if] by the introduction of cheap foreign goods, I can save 20 per cent from my expenditure ... profits would not be raised'.

Marx disagrees and 'corrects' Ricardo: 'That is to say, [profits (Marx understands, the rate of profit)] would not be raised if the cheaper goods entered *neither into the variable nor the constant capital*'.[964] So, the reasoning would be correct for Marx if Ricardo had been thinking of cheaper goods only for unproductive consumption. Although the general rate of profit is stationary, for Ricardo the country does save (accumulate): If 'in consequence of the cheapness of all the commodities on which his revenue was expended, he and all other consumers could save the value of £200 out of every £1,000 they before expended, they would more effectually add to the real wealth of the country'. In an earlier work of Ricardo, we find the parallel point, that factors like foreign trade do 'augment the amount of commodities, and contribute very much to the ease and happiness of mankind; but, they have no effect on the rate of profits' – again with the precondition that the amount of

[964] Marx 1989b, p. 165. Again on the same point, Marx assumed the blatent inconsistency in Ricardo was likely just a simple inaccuracy of expression: 'he has just said the very opposite; evidently he means *never unless by the improvements mentioned the value of labour is diminished*' (Marx 1989b, p. 57). Indeed, that is plausibly what Ricardo meant, as in an earlier work Ricardo specified: 'Excepting when the extension of commerce enables us to obtain food at really cheaper prices' (Ricardo 1962, p. 25).

earnings does not rise: 'the *same revenue* becomes efficient in procuring a greater amount of the necessaries and luxuries of life'.[965]

As to Ricardo's second case, it is similar to the Marx-passage. In the second case the capitalist accumulated due to a rise of the amount of earnings from his sales, and for Ricardo his profit rate then does rise. In Ricardo's parallel passage (in an earlier work) too, the precondition was a rise in the amount of earnings: 'a country may be benefited by trade [...] by the increase of the general rate of profits, which, according to my opinion, can never take place but in consequence of cheap food ... [and in this case] the *revenue* of the country is *augmented*'.[966] The total value of bought goods is not reduced. In particular, the totality of wages (variable capital) is not reduced: '[Malthus] does not sufficiently allow for the effects of a better distribution of the national capital on the situation of the lower classes. It would be beneficial to them, because *the same capital would employ more hands*'.[967] That is, the total expenditure on v is not reduced.

Allegedly individual wages are initially reduced, but we have two comments on this. If Marx seriously believed, allegedly like Ricardo, that individual wages in price (and individual labour power in value) would fall due to foreign cheaper imports of workers' means of subsistence (food, but also clothing and so on), why did Marx (and socialists in general) not politically advocate then for restricting the import of foreign cheaper means of subsistence? If there is not put some limit on the notion that mere import of cheaper foreign means of subsistence could reduce the average national wage, that is the 'necessary labour' part of the working day, then the effect of domestic increased productivity (on raising the rate of exploitation) would be overshadowed, and in general the importance of socially-necessary (national) conditions of production downplayed. Second comment; for Ricardo the rate of profit was limited by the agricultural rent paid to landlords, so when he says the rate of profit rises due to cheaper food imports, the rise in the mass of profit (surplus) for capitalists is taken from the landlords (and not because capitalists pay individual workers less material goods); and Ricardo's 'rise' of the profit rate is just a rebound on a falling rate of profit due to increasing rent (diminishing returns in agriculture), so at most it prevents the rate of profit from falling, but it does not raise it. Other than that, Ricardo's second case has the same assumption as in the Marx-passage: the *total value* of bought goods ($v + c$) at least *is not reduced*. And as there are more workers employed, there is a greater surplus, and earnings increased.

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[965] Ricardo 1962, p. 25, our emphasis.
[966] Ricardo 1962, p. 25, our emphasis.
[967] Ricardo 1962, p. 35, our emphasis.

In Ricardo's first case, the total value of bought goods is reduced, and revenue (earnings) stays the same. But was Ricardo's proposition (that the profit rate then remains stationary) meant as valid only with the caveat that cheaper imports do not enter into variable (or constant) capital? If he meant it without such caveat, or if we ourselves imagine such a scenario, that should be addressed. Is Marx correct that when cheaper imports enter into variable (or constant) capital – under the condition, as in this first case of Ricardo, that the total value of bought goods ($v + c$) is reduced and earnings stay the same, – the profit rate nevertheless rises? That is, with the same number of workers, just a reduced total value of v. We think Marx in that comment gave a correct, but not a strong or practically relevant argument against the proposition of Ricardo, perhaps purposefully so. If Ricardo's point (as one could interpret it), somewhat reformulated, remains standing, this would make our interpretation of the Marx-passage (which we quoted at the beginning of the section) also more plausible, which was that Marx went even further than Ricardo, by saying that foreign trade (thanks to cheaper goods) can actively even make the rate of profit *fall* (and not just keep it stable).

There are two places that seem to challenge our interpretation of Marx on this point (and which Engels must have had in mind when he made his edit):[968]

> As long as other circumstances are equal, the rate of profit falls or rises in the opposite direction to the price of the raw material. This shows among other things how important raw material prices are for industrial counties, even if variations in raw material prices were not accompanied by fluctuations in the product's orbit of sale [Marx here presumably means the final product manufactured by industrial countries], i.e. quite apart from the relationship between demand and supply. It also explains how foreign trade influences the rate of profit, irrespective of any effect that it has on wages by cheapening the necessary means of subsistence. ... The fact that any understanding of the rate of profit and its specific difference from the rate of surplus-

[968] Grossman was tempted to quote these two passages as support for his claim about the international mechanism of distribution of surplus value between branches with different organic composition, that is the establishment of prices of production (see Grossman 2021, p. 371). While in itself that claim is indeed found in Marx (see our section five), these two passages about cheaper imports cannot be used to support it, because they do not mention the required presupposition (for this mechanism), namely that the cheaper imports are produced by a foreign country (or competitor) with a lower organic composition of capital than the domestic average. Imported goods can be cheaper instead for the reason that the foreign producer has a higher productivity, so can sell below the market value (which does not require that the foreign producer have a lower organic composition, on the contrary). Whereas in case of the mechanism of international distribution of surplus value, the product eventually would be sold just at its actual, but 'cheaper', price of production, in the sense that the price of production (of a branch with below average organic composition) is always below its value.

> value has been so completely lacking [... is the cause that] those economists who hold firmly to the general principles, such as Ricardo, fail to recognize the influence of such things as world trade on the profit rate.[969]
>
> Because of his completely wrong conception of the rate of profit, Ricardo misunderstands entirely the influence of foreign trade, when it does not directly lower the price of the labourers' food. He does not see how enormously important it is for England, for example, to secure cheaper raw materials for industry, and that in this case ... the rate of profit rises although prices fall, whereas in the reverse case, with rising prices [of raw materials], the rate of profit can fall, even if wages remain the same in both cases. [970]

In these two passages Marx keeps the value of variable capital unchanged. But furthermore, instead of merely reducing the value of a commodity unit of constant capital, he here further also reduces the *total* value of constant capital, that is Marx assumes the *quantity* of bought imported cheaper raw materials does not increase (so the scale of production is not expanded). If the quantity of bought raw materials did increase (and variable capital stays the same), then nothing would change in the absolute figures of the elements in the profit rate $s / (v + c)$, that is there would be no rise in the profit rate even though there are cheaper imports of raw materials. There is also no increase in the total value of constant capital from an increased expenditure on it, financed out of savings won on cheaper variable capital, as here the value of variable capital was kept unchanged.

Ricardo's statement that 'profits would not be raised', even when there is a fall in the *total* value of (productive) constant capital, is correct, if by 'profits' Ricardo here meant just the mass of profit. Marx plausibly understood that Ricardo by 'profits' meant the 'rate of profit'. Let us suppose that Marx was also aware that the scale of production for Ricardo stayed the same. When Marx then claims there is a rise in the rate of profit, this criticism (against Ricardo), if correct, holds only under the (non-realistic for capitalism) condition that there is no expansion of the scale of production, and so no higher total earnings. So, we repeat the question, is Marx's criticism correct under this condition? Ricardo holds that the rate of profit rises when it is due to higher earnings. The disagreement lies in this: even when there are no higher earnings (no expanded scale of production) for Marx in such case too there is a

[969] Marx 1981, p. 201–2.
[970] Marx 1989b, p. 72.

rise of the rate of profit, although on a smaller total value of capital investment. Marx is mathematically correct. The total value of (v + c) is reduced, while s stays the same (same number of workers), so the rate of profit rises. However, it seems that Marx did not dwell on the (non-realistic) precondition in Ricardo's first case, that the number of workers does not increase. So he himself perhaps did not find it a significant criticism (valid only to a non-realistic to capitalism scenario of a lack of expanded scale of production). Still, if we attach significance to Marx's comment, then, in Ricardo's defence, maybe Ricardo included the money that was not invested (and thus 'saved', accumulated) as still a part of the stock on which the country's general rate of profit is to be calculated. Then Ricardo would be mathematically correct. In Marx's criticism this non-invested money, which earns zero profit, is excluded from the calculation, and so it does not drag the general rate of profit back to the stationary level (as it does in Ricardo's calculation). By the way, maybe Ricardo's position grants, ironically, greater significance, than Marx's here, to the fact that fixed capital as part of the total value of constant capital cannot be so quickly replaced by a cheaper version as raw materials (circulating capital) can, and so this (old 'higher') value of fixed capital remains included in the calculation of the profit rate of the country's total investment.

3. Marx on foreign trade, and on colonial trade

We remain in the section ‘Foreign trade’, so-titled by Engels, and now turn to a couple of later passages in it. We already mentioned that in these, unlike in the first passage, Marx does speak of a *rise* in the rate of profit. However, now we will offer an interpretation that severely qualifies this belief even in this later instance. Here too we complain (a little bit) about the editing of Engels.

3.1. On foreign trade

We again split the sentences, as edited by Engels, into separate paragraphs for clarity:

> Capital invested [*angelegten*] in foreign trade[971] can yield a higher rate of profit, firstly because it competes with commodities produced by other countries with less developed production facilities [*mit minderen*

[971] This is not principally focused on *colonial* trade.

> *Productionsleichtigkeiten*: with less easiness of production], so that the more advanced country sells its goods *above* their value, even though still more cheaply than its competitors.
>
> In so far as the labour of the more advanced country is valorised here as labour of a higher specific weight > just as within a country when a manufacturer employs a new invention which has not yet come into general use <[972] the profit rate[973] rises, since [*indem*] labour that is not paid at [*als*] its higher specific weight[974] is nevertheless[975] sold as such [*als solche*].
>
> The same relationship may hold towards [*gegen*] the country to which goods are exported and from which goods are imported: i.e., such a country gives more labour in return than it receives, even though it still [*und doch*] receives the goods in question [*die Waare so*: the goods in this manner] more cheaply than it could produce them itself. In the same way, a manufacturer who makes use of a new invention before this has become general sells more cheaply than his competitors and yet still [*und dennoc*h] sells *above* the *individual* value of his commodity, valorising the specifically higher productivity of the labour he employs as *surplus labour* [*Mehrarbeit*].[976]
>
> He thus realises a surplus profit.[977]

What Marx writes here is not directed against Ricardo, who, of course, did not deny that the capital invested in foreign trade can yield a higher rate of profit in a particular branch.[978] The question Marx is driving at (stated in a preceding line, which we did not quote) is about the effect on the *general* rate of profit. When Marx, at the end of our quote, posits that a surplus

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[972] Engels edited this line out, because Marx repeats the thought shortly again. The 2015 translation shifted this line a bit forward. In Marx's original it was placed a bit earlier, so following on: 'In so far as the labour of the more advanced country – just as within a country ...'.

[973] We interpret Marx means here the profit rate of a particular sphere, but not the *general* profit rate of the country (if he meant the latter, he could have specified with '*allgemeine*').

[974] The 2015 translation here clarified by adding 'higher ... weight' to Marx's original of solely 'specific' ('labour that is not paid as specific').

[975] This 'nevertheless' is absent in Marx's original and was not added by Engels. It is an addition by the English translations.

[976] The term 'surplus labour' is here perhaps not used in Marx's usual sense (of surplus value). It might refer here to Marx's concept of *potenzierte* ('potentised') labour, to which we devote a footnote at the start of subsection three of section one in Dashkovsky's text. But admittedly: '[I]f as a result of new machinery, etc., a cheaply produced product is sold at a higher market value than its own value [then a] part of the surplus labour [*Surplusarbeit*] of the workers appears as ... excess profit [*Surplusprofit*] ... instead of as profit' (Marx 1989b, p. 88).

[977] Marx 2015, pp. 341–2, which is a translation based on the original manuscript (for original manuscript in German, see Marx 2012a, pp. 306–7). For a previous translation based on Engels' editing, see Marx 1981, pp. 344–5. We have not made the changes that would in our view make it fit more precisely with Marx's original.

[978] On Ricardo, see our section two.

profit is realised (by a capital in a particular branch of foreign trade), this again is not denied by Ricardo. The precise lines we quote from Marx are not a criticism of Ricardo. The surplus profit of this kind does not raise the *general* rate of profit: *this we think is the unstated point of Marx*, in agreement with Ricardo. It is otherwise if the surplus profit is of the kind that is based, not on more advanced production facilities, but on a lower organic composition of capital (that Marx addresses in the place on *colonial* trade that comes directly after the lines that we quote); then the general rate of profit does rise for Marx (in opposition to Ricardo). If Marx had meant that surplus profit derived from more advanced production facilities (in foreign trade) in one branch raises the general rate of profit, he would here have written that this branch's surplus profit is distributed to the other (non-export) domestic branches (as he did write in case of colonial trade: 'equalization still takes place'). And also his comparison to a manufacturer with a new invention tends to preclude that it is about the general rate of profit, as one manufacturer's new invention does not raise the general rate of profit (neither of the whole of society nor just of the whole branch).

We continue our commentary on the passage we just quoted above. Some of our remarks on the editing by Engels and the existing translations of Marx's text, have theoretical importance.

We give Marx's original syntactical order of the first sentence:

'Capital invested in foreign trade [*im auswärtigen Handel*] can yield a higher rate of profit, leaving aside complications [*von Details abgesehn*], because here firstly [*hier erstens*] it competes with commodities produced by other countries with less developed production facilities, so that the more advanced country sells its goods *above* their value, even though still more cheaply than its competitors'.[979]

By the word 'here' (*hier*) Marx apparently means 'foreign trade'. In foreign trade, the invested capital faces competition with commodities produced by other countries, that is Marx apparently understands by 'here' (in 'foreign trade'), the foreign or world *market*. In case of his earlier expression 'capital invested in foreign trade' though, Marx apparently means that the capital is invested in a domestic (that is in the country of the investor) branch of *production* whose output is destined for sale abroad (obviously not that it is invested literally 'in the world *market*'). This is just to note a slight ambiguity in the sentence. This is the first interpretation.

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[979] Our restoration; old English translation is Marx 1981, pp. 344–45. Again, for original manuscript in German, see Marx 2012a, pp. 306–7. The 2015 translation, like the old English translation, dropped the word 'here', present in the original Marx-manuscript and in Engels's edition, and shifted the word 'firstly' in front of 'because'.

Now, there is second (broader or even different) interpretation of this sentence; the capital is invested ('in foreign trade') in a location outside the own country of the investor, as long as it is a country that has the more advanced production capability on the world market (this can be for example some new dynamic industrial branch in a highly-capitalist country, absent in the investor's own country). In this interpretation then, Marx is thinking of foreign direct investment, although he uses the word German word *Handel*. Perhaps he used the word *Handel* because in his time there was not yet a German word for foreign direct investment. Right after our quoted passage, his text brings up what seems to be his 'secondly' (our term), namely the different case when capital is invested in *colonial* trade. This 'secondly' (if it is the secondly) throws a light back on the 'firstly' that Marx used. It starts as follows: 'As far as capital invested in the colonies, etc., is concerned, however, the reason why this can yield higher rates of profit is that [...]'.[980] This is more definitely about foreign direct investment since he says the capital is invested *in* the colonies, again despite the fact that, in the prefacing remark just before our quoted passage, he used the German word Colonial*handel*.[981] So, if here he speaks about foreign direct investment with regard to colonies, then it is more plausible that also in the first case (of capital invested in foreign trade that is not colonial) he meant foreign direct investment. Yet in our present section we will not hold to this second interpretation, and just assume he meant investment in a domestic industry whose output is sold abroad. We will return to the possibility of Marx's understanding of foreign trade as foreign direct investment later, in our section five.

Let us go on to the second sentence in the above-quoted passage: 'In so far as the labour of the more advanced country is valorised ... as labour of higher specific weight ... the profit rate rises, *since* the labour that is not paid as specific, is sold as such' (our adjustment).

This does not refer to the sale of labour-power (or the sale of 'labour' itself), but to the sale of the commodities in which labour is objectified. The word 'since' (*indem*) has the sense of 'when', 'while', or even 'by' or 'through', but not really a 'because'. It does not add much insight to the first part of the sentence. Labour is valorised (from 'value', *verwerthet*) as labour of higher weight, that is labour is sold as higher weight. We merely learn that the word 'valorised' does not mean 'paid', only 'sold'. What does 'paid' mean though? A manufacturer paying workers does not pay their performed amount of 'labour', but the value of their labour power. Is meant the smaller number of employed in a more productive company, so its total expense on wages is smaller (and the total amount of labour they perform is smaller),

[980] Marx 2015, p. 342.
[981] See Marx 2012a, p. 306.

meaning, this is what is paid at a 'lower' weight, – 'lower' compared to what the expense is on the sum of wages in each of the average productive companies? No, because the more productive company employs the same number, it is just its output that is bigger. If its greater output is entirely sold, in what sense did it 'pay' less? There went a smaller amount of labour into each of its products (compared to the average companies), so 'paid' caries the sense that it *expended* less (labour) per commodity-unit. The commodity (of a more productive company) is sold as if it were a higher weight, meaning it is sold as if it contains more labour than it actually does.

Next a comment on the phrase 'in return' in the third sentence. It is used in English language in the original manuscript itself (of what became *Capital* volume three). All previous publications (based on Engels's editing) instead had '*in natura*' (in kind), which is similar in meaning and also plausibly what Marx meant, since, in a place a bit later (which we will discuss in subsection 3.2.), Marx, – against a focus on price, – adopted a barter perspective: 'As soon as we take our leave of the money form, this semblance vanishes. The privileged country receives more labour *in return* [this phrase again in English in original] for less, even though this difference [this 'more'] *is pocketed by a certain class* [in English in original], just as in the exchange between labour and capital in general'.[982] One can easily misread Marx's handwriting 'return' for 'natura' (or vice versa). This is an inconsequential detail, though some would oppose any notion that Marx thought in terms of barter (labour content independently of price).[983]

Notably, Marx in the whole context does *not* call such unequal barter of labour a *modification* of the law of value; maybe voicing his position on this again in this context was irrelevant for the issue at hand of the general rate of profit, or, if this silence has a significance, it could be, as would follow from Dashkovsky's portrayal, that Marx in general did not regard his position (that there is a modification of the law of value) as a criticism against Ricardo (who is Marx's interlocutor in this context). We will dwell longer on that context (which is about colonial trade) once more in the next subsection (3.2.).

Let us continue with the third sentence, specifically with its part '*and* from which goods are imported'. In our view this 'and' marks the sentence's distinction compared with the first scenario in the preceding two sentences. When Marx says about this (in our view different second) scenario of the less advanced country which *in addition* sells its goods (instead of just *buying* goods of the more advanced country), that the 'same relationship may hold'

[982] Marx 1981, pp. 345–6; Marx 2015, p. 342, our correction of the English translations.
[983] For the law of value even prior to the existence of money, see our section one.

towards it, this could mean that for the branch that exports from the country (less advanced in a certain type of good) likewise 'the profit rate rises' of its exporting branch on condition that the merchants belong to this country. The quoted passage is about foreign trade as distinct from colonial trade. The other country (less advanced in a certain type of good) here is *not* a colony, and we can assume it has its own merchants who transact its export.

Another, second interpretation would have to ignore the 'and from which goods are imported'-part, and see the sentence's distinction (compared to the first two sentences) instead lie merely in the switch of focus now onto the gain of the less advanced country, merely due to the fact that it 'receives the goods ... more cheaply than it could produce them itself', meaning below the market value (but still above their individual value). But it is unclear how consumers buying foreign goods below market value (from the foreign merchants), that is cheaper imports, by itself raises the profit rate of anyone in their country ('the profit rate rises', mentioned in the previous sentence, which in our view is about the rate of profit just of a branch) or even the profit rate of the entire country (which is the issue driving Marx's whole passage in context). It would then certainly have to be also a capitalist country, and the cheaper foreign goods it imports ('receives the goods ... more cheaply than it could produce them itself') would more likely be means of subsistence for its workers (which the passage gives no indication of). We already have cast doubt on this second interpretation in the previous section of our essay, so we will not repeat ourselves here.

We continue our commentary on the quoted passage (which Dashkovsky must had in mind for his criticism of Marx). We posited that the rate of profit *of a branch* in a country rises because the country, in addition to importing, also *exports* its type of goods (that is not merely because it *imports* cheaper goods). In the original German manuscript, Marx's sentence (with the part '*and* from which goods are imported') still has not ended (whereas the 2015 translation followed Engels's edit, by wrongly starting a new one: 'In the same way ...'). Engels's formulation had created that new sentence: '*Ganz wie* ...'; Marx' original is a continuous sentence: '..., *wie* ...'. The comparison ('*wie*') is of the country less advanced (in certain type of goods) which sells its goods, with a manufacturer who sells his goods above their individual value. From the original formulation of Marx, we must interpret, that this country less advanced (in certain type of goods) sells other type of goods (which it is more productive in) above their individual 'value' (just like the mentioned manufacturer). We probably should assume here two (monetary) transactions occur, of two types of commodities, in one of which each country is the more productive, so the final outcome is that in both countries there is obtained a surplus profit (for a certain branch). A plausible

illustration is when the country with less 'easiness of production' in one type of commodity due to relative technical backwardness, on the other hand has more 'easiness of production' in another type of commodity due to relative superiority in natural factors. Also, so far this would not contradict the classics' argument about the benefit of trade.

And after all, the usual assumption of economists on 'foreign trade' is of a mutual exchange of (different types of) goods between countries, and not a one-sided sale, that is, 'trade' means both export and import at the same time. Admittedly, merchants may already, while abroad, make a profit by selling their country's (more productive) commodities, and could bring home this profit in the form of money, like a one-sided transaction (this would be the first scenario in the Marx-passage), although it is realistic to assume that the merchants would immediately spend this profit earned abroad on buying goods abroad, so their vessel on the way back home would not be empty (the same would hold for the merchants of the less advanced country when they return home from abroad).

3.2. On colonial trade

Following directly on this Marx-quote, there is, as already indicated, also a passage on *colonial* trade (which is a case of higher profit due to lower organic composition of capital, and not strictly due to better objective conditions of direct production) that we will now focus on. We said that its language, of capital invested *in colonies*, strongly suggests it is about foreign direct investment (on which we will speak in section five). However, for now, let us interpret this passage as if it is on trade (with colonies) in the strict sense.[984] We will not quote it as a whole up front.

The passage contains a sentence which Engels clarified in the sense of trade being both export and import (simultaneously): 'What Ricardo has in mind, on the other hand, is this: higher prices are obtained abroad [*mit dem im Ausland erzielten höheren Preis*; 'price' in the singular in German could indicate for Engels one sum price]; commodities are bought there and sent home [*als Retour*] in exchange; these commodities are therefore sold on the domestic market, so that the favoured spheres [*Sphären*] of production can have at most a temporary advantage over others'.[985] The original formulation of this sentence of Marx was terser (but in the aspect we just focused on, has a similar sense of Engels's edit): 'What Ricardo has in mind, on the other hand, is this: the commodities are sold within the

[984]Our later interpretation in section five, that this is about foreign direct investment, does not preclude or contradict that there is involvement also of foreign trade in the strict sense.
[985]Marx 1981, p 345.

[domestic] country [*im Inland*], and in them the higher return [*höhre Return*] is realised. This gives the favoured spheres of production at most a temporary advantage over the others'.[986] So, the less advanced country (colony) not merely imports goods from the more advanced country, but also sells its own goods to the more advanced country.

What Engels's formulation left out though, is that the merchants realise their higher profit only *after* importing foreign (colonial) goods into their own home country, as the second leg of their transactions, and not yet in the first leg by just exporting their own country's goods, that is by just selling (for what Engels perhaps misleadingly called a 'higher price') abroad. If Engels by a 'higher price' meant per commodity-unit, then he would be thinking of 'higher' abroad as compared to the individual value of an English (more productively) produced commodity-unit on the English market, and the 'higher price' would really just be equal to the social or market value that is the international average, so it is not an actual price higher than the market value (which is identical to Marx's concept of value).

Let us also note that (still in that place) the 2015 translation made its own (inconsequential) change to Marx's original by creating a separate second sentence (on 'temporary advantage'). In the original[987] it is continuous, so it is clearer that Marx is still presenting Ricardo's position (that the advantage is only temporary). Moreover, both English translations use 'advantage', whereas it is 'extra-advantage' (*Ueberbevortheilung*); the point would be that profit in foreign trade for a branch is higher than its usual (normally advantageous) profit at home.

In the next sentence then (which we already quoted in subsection 3.1.) Marx raises, for the first time (in our opinion), a criticism of Ricardo's thought (that he just summarised): 'As soon as we take our leave of the money form, this semblance vanishes'. We think, however, that Marx did not (intend to) object to Ricardo's thought (as Marx just summarised it) that the extra-advantage of one *sphere* (over other *spheres* inside the country) is temporary, but rather, that Marx is objecting here to Ricardo's idea that the (whole) *country*'s gain over the foreign *country* is merely temporary. This is to make sense of Marx's next line: 'The privileged country receives more labour in return for less [...]'.[988] The privileged country permanently keeps this gain (of more labour), even if the extra-advantage is temporary. When two countries have an individual value below the market value for a commodity that each of the two is better in, and they exchange with each other, then to determine which country gains, what matters is the *sum difference between the size differences between*

[986]Marx 2015, p. 342.
[987]See Marx 2012a, p. 307.
[988]Marx 2015, p. 342.

individual value and market value for each of the two types of commodities[989] (yet even if that size difference would be bigger for one country than for the other country, then it is still not clear who pockets the most gain, because it also matters which country's merchants perform the transactions[990]). Ricardo rejects (besides a permanent rise in the country's general rate of profit) also the idea that a country can increase its (total) *value* immediately by foreign trade. So, although Ricardo accepted that different (unequal) amounts of labour are exchanged in trade between countries, he held that this did not increase the (sum total) value of the (privileged) country.

At first sight it seems contradictory that Ricardo rejects the operation of the law of value in international trade, yet simultaneously holds the idea that countries cannot increase their total value by this same trade (the latter idea, one might believe, implies by definition equal exchange of value, that is the law of value); however, the law of value is about exchange at the level of the commodity-unit, whereas with regard to the issue of an increase of a country's

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[989]This is if we, for simplification, assume the market value of the two types of commodities happens to be the same, both for example twelve hours, so the exchange in terms of price is equal between country A and B. Let us say country A's commodity-type (which it is more productive in) has an individual value two hours lower than the market value, while B's commodity type is seven hours lower. From the labour perspective, in the exchange country A gains two hours, and B gains seven hours. So, B gains five hours more than A. Hence country B is the winner, although in price form both countries obtained the same. In Ricardo, the exchange between countries is conceived on the level of the sums of each of the two commodity-types, that have the same sum value, so the quantity of the two types of commodities differs or is left unspecified. We on the other hand switch our focus to the level of a commodity-unit, and, unlike the example we just gave, the (market) value of the unit of two different commodity-types being exchanged is (usually) not the same. Our focus on the commodity-unit does not change the essence. It just looks more complicated, as usually the market value of two commodity-types is not the same. We illustrate this scenario of different market value of the two types of commodities:

If the unit of the commodity-type more productively created by country A contains two hours less than its market value of twelve hours, while the unit of the commodity-type more productively created by country B contains seven hours less than its market value of, now instead, nine hours, and each sells one unit of their commodity-type to the other (at the market value), which country wins? Country A obtains the higher market value of twelve hours, and country B obtains only nine hours. In price form, country B pays three hours more to country A. So, it seems country A wins. But from the labour perspective country A gains only two hours, whereas country B obtains a larger gain, namely seven hours (which is a gain five hours more than A). Still, even though A worked eight hours more than B, B's gain is not eight hours, and not even five hours, but just two hours (because the three hours it paid to A in price must be subtracted from its five hours larger gain). So again, country B pays in price three hours more to A (after the mutual exhange of a unit of two different commodity-types), and after this, country B still has a gain of two hours. So, country B is the winner.

Let us suppose the one unit of country A is exchanged now instead for seven (that is, still a specified quantity) of the units of B. In price form country A obtains twelve hours, and in this case country B obtains sixty-three hours, so already now it seems country B wins (it is paid fifty-one more by country A). When we adopt the labour perspective, country A gains two hours, whereas B gains forty-nine hours (which is forty-seven hours more than A). Still, even though country B now works four hours more than A, A not only did not gain four hours, and not even gain two hours (which is of course zero hours more than forty-seven), but it gave up forty-seven hours (the fifty-one which A paid to B, must be added). Country B is still (or again) the winner. We see in this case where country B in total works more hours than A, that B's labour gain (forty-seven hours) now is lower than B's price gain (fifty-one). Country B is the winner, but unlike the previous case, its gain in labour declines below its gain in price. In the previous case, B had a loss in price form, but an increase (into a gain) in labour, because it worked less hours than A.

[990]And it is of course also possible that the merchant belongs to neither of the two countries whose products are exchanged.

total value by foreign trade, the focus is at the level of the sum value (of the whole quantity of commodities exchanged between countries). Perhaps that focus of different levels (on a commodity-unit, as against on the sum quantity of commodities) is also the explanation for why elsewhere Marx grants to Ricardo the knowledge that a country can obtain (in return) more labour,[991] yet here one might get the impression that Marx presents this point (that the 'privileged country receives more labour in return for less') as if Ricardo was unaware of this possibility. Still, in order to understand Marx's argument with his claim that one country obtains a permanent gain over the other, we sense that something else must be at play in his critique of Ricardo, which we will dwell on in greater depth in our section five.

In Marx's next line (still in that passage on colonial trade), the 2015 translation kept an edit by Engels uncorrected: '*Thus* in as much as the profit rate is higher because it is generally higher in the colonial country, favourable natural conditions there may enable it to go hand in hand with lower commodity prices'.[992] Engels changed (likely just misread) Marx's original '*aber*' ('however') into an '*also*' ('thus'). Marx with 'however' highlights there is a seeming paradox (in connection with the previous sentence); the 'privileged country receives more labour in return for less'; *however*, this can 'go hand in hand with lower commodity prices' (of the colonial country). The 'lower' is in comparison to the price had the commodity been produced in the privileged country. That is it would have required the privileged country more labour, than it requires the colonial country. If it requires less labour for the colonial country to produce the commodity, how then does it nevertheless give more labour to the privileged country? We believe it is this, that Marx wanted to indicate as paradoxical. If we look closer, exchange does not happen directly between foreign (colonial) producers and domestic consumers. Inbetween is the merchant, who belongs to the privileged country (maybe that is what Marx hints at, when he wrote that the excess 'is pocketed by a certain class'). The merchant is able to sell the imported colonial commodity domestically at a price above what he paid for (the 'lower' price in the colony), yet still below the price that it would cost the privileged country to produce the commodity by itself domestically. We can

[991]'And even according to Ricardo's theory, three days of labour of one country can be exchanged against one of another country' (Marx 1989b, p. 294). For instance Ricardo 1821, pp. 481–2 (referenced by Marx 1986b, p. 385). On a focus on the level of a commodity-unit, Marx wrote: '*General remark*. Ricardo pays too little attention to quantity in regulating the price, just as in regulating rent he always has only the price of one quarter in mind. The price at which can be sold depends at the same time on how much of a given quantity can be sold. Because [amount] *x*, that is, the total price of the products of a manufacturer, is the same whether 1000 yards [of for example linen] can be sold for 4 shillings [per unit] or with the same labour 2000 yards can be sold for 2 shillings [per unit]. But it is necessary that he sells 1000 yards in one case, and 2000 yards in the other. The total price is determined by the price per unit (measure, yard, qr etc.) [but also] *x* [which here for Marx seems to designate the price per unit] [is determined] with the quantity, that is sold.' (Marx 1986b, p. 385, our translation).

[992]Marx 2015, p. 342.

designate the latter (domestic) cost the social or market value. The merchant sells below or at this (domestic) market value, but above the 'individual value' of the colonial producer, hence the profit goes to him, and not to the colonial producer (who sold his commodities at their 'individual value'). As the merchant belongs to the privileged country, the profit goes to the privileged country, but this profit was paid by domestic consumers of the privileged country, so this profit, whether in terms of an amount of money or as labour, never left abroad (it never reached the hands of the colonial producers). Hence the domestic country, while its merchant made a profit (and so the domestic country made a profit), did not give its labour to the colonial country. A lot of the argument rests on the contingency that the merchant belongs to the domestic (privileged) country. If it were the case that the colonial country had its own merchants, that themselves exported and sold their colonial commodities on the privileged country's home market, then the profit would go to the colonial country's merchants, and so be acquired by the colonial country.[993] Again, we will revisit Marx's critique of Ricardo in our section five, for if we assume something else is at play here in Marx' critique (to tell in advance: capital export or foreign direct investment), then this contingency, of whose country the merchants belong to, is excluded.

4. Our own reflections on a couple of examples in Ricardo

So as Marx in his original manuscript (but obscured by Engels's edit) summarised it, for Ricardo the realisation of a higher profit by the merchant depends on the concluding sale on the *domestic* market. We noted (in section one) that Marx's theory of value is about (social) market value, and not about 'individual value'. What is the source of value that constitutes the (higher) profit of the merchant? If it actually comes from the domestic country itself, were the producers of the foreign country then not 'exploited'? In this section we look for answers by thinking through a couple of Ricardo's examples of the sale of imported goods on this domestic market.[994]

A merchant domestically sells his imported goods at a sum price of £1200, for example 25 pipes of wine, which he had bought abroad (for example in Portugal) for £1000 (thus £40 per pipe).[995] The merchant's £200 profit is obtained from the domestic (English) consumers

[993] And it is of course also possible that the merchant belongs to neither of the two countries whose products are exchanged.
[994] See Ricardo 1821, pp. 131–5. The reader only interested in Marx's views may skip our section four, in which we will now present just our own tentative thoughts.
[995] A pipe is about 477 litres.

paying £48 per pipe. Ricardo left unstated why the foreign wine-producers were willing to sell at only £40 per pipe, and why the domestic English consumers were willing to pay the wine merchant £48 per pipe.

What factors determine the price of £40 (we think Marx would call this its 'individual value')? The difference between 48 and 40 (namely £8) is determined for Ricardo by the (domestic) general rate of profit of 20% (we think Marx should call this £48 the 'market value', that is value in the proper sense). We could, however, also conceive of this £8 difference, as the difference between individual value and market value (of what a pipe of wine would cost if it were produced in England), hence the price is also determined from the side of the extent of the productivity advantage of foreign wine-producers compared to (hypothetical) English wine-producers: if the Portuguese wine-producers' 'individual value' of a pipe of wine became instead, for example, £35 due to even better relative production conditions, then the merchant could get £13 profit, which (35 times 25 equals 875) gets the merchant 37,1%, which is above the (domestic) general rate of profit of 20%. As for what the general rate of profit is in the foreign country (for example Portugal), Ricardo does not elaborate (presumably the wine producers' profit does not exceed their home general rate; if it were say 60%, then the £40 price per pipe would realise a 60% profit rate for the wine-producers). We discern for now two factors that determine the profit size in Ricardo's example: the (merchant's) domestic general profit rate, and the foreign individual value (or the extent of its difference with the market value). Also, the reason why the wine-producers' own country does not obtain £48 per pipe of wine is the contingency that its own merchants do not control the sale of wine abroad (to the English consumer).

For Ricardo when a greater *quantity* of goods is imported, the price per commodity-unit falls domestically. Ricardo (in passing) mentions this scenario of a doubling of the quantity of imported wine. We found him saying so in a new example *with a different price illustration*, where Ricardo only mentions the price which the merchant pays the wine-producers abroad (and not the price which the domestic consumer pays the merchant):

'If the quantity of wine, imported in exchange for the same quantity of English commodities, be doubled [and prior to this doubling] I [that is, the merchant had] purchased annually one pipe of wine for £100 [then now] wine fell to £50 per pipe ... we [the merchant, or maybe also in the general the domestic consumers] should receive double the quantity, though not double the *value* of wine'.[996]

[996]Ricardo 1821, p. 134, our emphasis. In Ricardo's previous example the price per pipe of wine was £48 (in sum £1200). In the new example it becomes £50 (in sum £1250).

If by 'value' Ricardo here (in this new example) means the £1250 (25 pipes at £50) which the merchant pays the foreign wine-producers (and not the £1500 English consumers pay the merchant, that is at a 20% profit rate, which we adopt from the first example), then it would indicate that he considers 'individual value' to be the real value of wine (and, again, not the £60 market value). The pipe of wine (in this new example) initially has a price of £100 and then fell to £50 already whilst still abroad (that is prior to importation), while, if we consider the domestic English consumer, this means (with a 20% general profit rate) a price of initially £120 would become £60 domestically. The price seems to depend on the fixed *quantity* of imported wine which English consumers are willing to absorb (if more is imported, the price falls), but, at the same time, that initial fixed quantity was calculated on the basis of the foreign *price* (the price which foreign wine-producers initially set at £100 in this example).

The foreign wine-producers 'decide' (perhaps due to an improvement of their productivity) to sell at a lower price (from £100 to £50 per pipe) to the merchant, but let us (independently of Ricardo) now instead imagine, that the merchant does not in turn transmit his lowered buying-price to the English consumer buying-price (rather keeping the latter at £120). That is, we imagine the scenario where the 'unaware' English consumer would be willing to still pay the same 'value' for the same total quantity of wine (to the merchant), namely £3000 (£120 times 25 pipes) as before, although that quantity's sum price should (according to Ricardo) have been lowered by the merchant to its new level of £1500 (£60 times 25) that earns him the same old 20% (buying from the producers at £1250). Or we can imagine the scenario where English consumers buy double the quantity, £3000 (£60 times 50 pipes), which is the same sum value as before, but price per pipe and quantity changed. The quantity produced by the wine-producers doubled, but, in our first scenario, the quantity sold on the domestic market by the merchant stayed the same, in which case half of the output of wine-producers was left unsold (assuming they increased their productivity). And when, in our second scenario, somehow total output of wine-producers was fully sold by the merchant without a lowering of the old price, this would earn him £6000 (£120 times 50 pipes), or a profit rate of 480%. This would be possible, first, if the initial *demand* for the quantity of wine by English consumers was not yet fulfilled, that is it was so strong that the merchant could double the quantity, but moreover, second, if the cost of producing wine domestically (in England) remains comparatively so high that the merchant not need lower the price per pipe domestically, that is need not worry that a domestic production of wine will spring into

life (that is the size difference between individual value and market value remained wide enough, for the merchant to increase his profit).

Ricardo's assumption seems to be that the initial demand of English consumers was fulfilled, that is they were unwilling to pay a higher price per pipe. Given this, does the *merchant*, – even while the price at which the merchant buys wine abroad falls to some extent, – ever have an *incentive* to import a greater quantity than the fixed quantity which English consumers were willing to absorb, that is without there being an unfulfilled consumer demand? We just saw that his earnings of £3000 merely are restored to £3000. On the other hand, in this situation (of a doubling of quantity) Ricardo implicitly assumes that English consumer demand was not fulfilled yet initially. This *allows* the merchant to import a greater (namely double) quantity, but it does not explain the merchant's *incentive* for doing so. Ricardo claims that the profit-rate of the merchant eventually goes back to what it was before, but how does he explain the temporary profit-rate rise (that presumably is the necessary incentive for the merchant to import a greater quantity)?

Let us return the first example (with a price of £48 per pipe). Ricardo wrote: 'If the [total number of, for example twenty-five] pipes sold for more than £1,200 [for example for £1400, – we specify this independently of Ricardo], the profits of this individual merchant would exceed the general rate of profits [namely rise from 20% to 40%], and capital would naturally flow into this advantageous trade ['trade' can also mean 'branch of industry', an ambiguity which we address in our section five], till the fall of the price of wine had brought every thing to the former level'.[997] Given his assumption that English consumer demand is fulfilled at £1200, how at all could this sum price (even temporarily) rise above it (to £1400), unless (contrary to Ricardo's implicit assumption) initially there does exist an unfulfilled English consumer demand?

Suppose, as Ricardo does, an increase in the quantity of imported wine occurs, accompanied by the fact of capital flowing into this advantageous trade, how exactly does this restore the sum price (from the temporary £1400) back to $1200? Does this 'capital flowing' into the wine trade mean that the merchant now pays *more* than £1000 (£40 times 25) to foreign wine-producers? If that were what Ricardo had in mind, how does paying a greater sum price to the foreign wine-producers help lower (restore) the price domestically? Also, how can the English wine-consumers temporarily have an extra £200 available (to pay the merchant at £1400) at the same time that there is also still enough capital available in England for its flow into the advantageous trade? Or are we to understand the extra £200 which the wine-

[997]Ricardo 1821, p. 132.

consumers spent is itself this investment? And what amount of capital must this flow consist of, in order to restore 'every thing to the former level'? The most evident assumption is that there needs to be an increase of the quantity of produced wine.

When the foreign wine-producers sell a greater quantity, say 29,175 pipes, up from 25 pipes (a rise of 16,7% which we derived from the monetary rise 1200 to 1400) of wine, and so the sum of their earnings rises, then still their price per pipe need not have altered from the moment when the price which English consumers (temporarily) paid the merchant stood at £1400 (because it is the merchant who pocketed the increased price per pipe, that is his profit then amounted to £400), so foreign wine-producers themselves have no incentive (given the lack a higher price per pipe for them) to sell more wine (their wine's individual value fell, but the merchant pockets the difference with the market value). Nor, as we saw, does the merchant have an incentive to buy more wine from them, since this (somehow) causes his profit to fall back to its original £200. It seems the only incentive comes from English consumers, who temporarily pay £1400 in the hope that somehow their resulting increased quantity of consumed wine (fulfilling their demand) will somehow force the merchant to sell this (increased quantity) of wine to them, and eventually even just for the same £1200 as before. If that somehow happens, does the freed-up £200 which the English consumer saves (no longer having to temporarily pay the merchant £1400) go anywhere? It does not go to the merchant, and not to the foreign wine-producer. As the sum price is restored back to £1200, the wine-producers, given their increased output by 16,7% (for the same £1000), get now instead even a lower price per pipe (from £40 to £34,27).

Let us simplify the process of foreign trade. Let us imagine foreign trade is practically feasible without intermediation of a merchant (so zero profit is pocketed by the merchant class). All the money (£1200) paid by the English wine-consumers would go directly to the foreign wine-producers. This would add £200 to the sum earnings of the wine-producers, but given their increased physical output by 16,7% (again, which we derived from the monetary rise 1200 to 1400), – meaning a stationary price per pipe for them requires a sum earnings of £1167 (up from the original £1000), – then even with our doling out to them the £200 merchant profit, this would have boosted the wine-producers' sum earnings by merely £33 (above their sum costs for stationary price per pipe). True, the wine producers at least recover the full (and a bit more) remuneration of their previous cost per pipe, but then there would still remain a savings in value of £167 (of the £200 merchant profit which we doled out to producers, only £33 really was added to them as profit) to be pocketed as a real savings (accumulation), and it is unclear by whom, or what country, it is pocketed. If we let this

merchant profit, which we dole out, go to England or its wine-consumers, so instead of £1200, the English would pay only £1000 (or £1033) directly to the foreign wine producers, then certainly the wine producers get less per pipe of wine, than what they earned before they had increased their output (by 16,7%).

These were just our own tentative reflections about what the source of value is that constitutes the profit from foreign trade.

5. Foreign direct investment and price of production[998]

In criticising Ricardo's idea that an extension of foreign trade cannot raise the general rate of profit,[999] Marx argued – on at least four occasions which will quote, including from the *Grundrisse* –, that if the organic composition of capital of a newly established firm abroad is below the average, then, with profit equalisation, a part of its surplus value is distributed to other, namely the domestic branches, and thus the home country's general rate of profit does rise.[1000] That is, in our (novel) interpretation, that we will here prove by Marx-quotes, this conception of foreign trade held by Marx thus included, or rather, was precisely about the phenomenon of 'capital export'.

The term 'capital export' seemingly fell out of use in the twentieth century, but we understand it as 'foreign direct investment' (more specific than 'foreign investment' in general[1001]). Incidentally, due to Marx's conception, our volume's title (trade) allows us to include writings on capital export.[1002]

One can ask whether Marx's criticism of Ricardo is appropriate or fair, if it is the case that Ricardo just consciously disregards capital export (FDI) as a part of his topic of foreign trade. Perhaps Marx believed that it was Ricardo's (and Smith's) own assumption that foreign

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[998] This section consists of a lot of quotes, to let 'Marx speak for himself'. We inserted some of our remarks in long footnotes.

[999] For instance Ricardo 1962, pp. 24–5.

[1000] If we consider the effect on the *world* general rate of profit (capitalism as a whole), and the workers employed by this firm abroad were prior to their hire already wage-workers, then there is no effect as there is no addition of labour force under capital. Marx looks at the national general rate of profit. He further apparently assumes that the firm hires people who were not yet wage-workers, though this is not a necessary assumption. If they were already wage-workers in that foreign country, then one could also investigate the effect on that foreign country's national general rate of profit, which their switch of employer has.

[1001] Marx mentioned a possible example of this general meaning of 'capital export': '(As if the credit system itself did not arise out of the *difficulty* of *employing capital* "*productively*", i.e. "profitably" [at home].) The English, for example, are forced to lend their capital to other countries in order to create a market for their commodities' (Marx 1989b, p. 309). This goes against the claim that it is due to a higher rate of profit abroad.

[1002] Also for instance see our footnote 262 in Dashkovsky's second text for difficulties in the definition of capital export.

trade does involve foreign direct investment, even if Ricardo does not explicitly mention it.[1003]

A smaller point about Marx's criticism is that the word 'trade', which he writes in English, can refer to an industry or occupation (whence a 'trade union'), so a phrase like 'a foreign trade' would mean an industry abroad.[1004] This semantic detail perhaps caused some to overlook that Marx's criticism of Ricardo principally involves an analysis of capital export.[1005]

That already Marx's own criticism of Ricardo on foreign trade explicitly involves the profit equalisation mechanism via prices of production, is acknowledged in the literature.[1006]

[1003] The culprit of the confusion is maybe the second part of this sentence, where Ricardo's expression 'other trades' means branches of industry: 'According to Adam Smith, the colony trade, by being one in which British capital only can be employed, has raised the rate of profits of all other trades ...' (Ricardo 1821, p. 411). It is more likely that in the minds of Smith and Ricardo foreign trade involved 'capital export' merely in the sense of long-term commercial credit, which Britsih manufacturers granted to buyers in the colonies, although direct investment (capital export iin the proper sense) also existed already in their era.

[1004] Another example where Ricardo wrote of 'trade' also in the sense of branch of industry (occupation): 'In rich countries, on the contrary, where food is dear, capital will naturally flow, when trade is free, into those occupations wherein the least quantity of labour is required *to be maintained at home*: such as the carrying trade, the distant foreign trade, and trades where expensive machinery is required; to trades where profits are in proportion to the capital, and not in proportion to the quantity of labour employed' (Ricardo 1821, p. 418, our emphasis). Upon which Marx comments: 'That is to say, [Ricardo] speaks of trades which employ relatively large amounts of constant, and little variable capital' (Marx 1989b, p. 11). This is one reading, although perhaps what Ricardo meant to say is that the little variable capital refers to employment of workers only inside the home country, and not that, in general, a distant 'foreign trade' sets in motion little variable capital as such. Since 'food is dear' in rich countries, capital of rich countries flows at home not to branches with a greater 'quantity of labour employed', but conversely, abroad (in poor countries) capital flows into branches with a great quantity of labour, since food there is easily procured. The objection to Ricardo would become then that he does not count the quantity of labour set in motion abroad by foreign trade, as really a quantity of labour in the employment of capital of rich countries (as 'their' national labour). Maybe Ricardo did not even count workers with domestic nationality as part of national labour, if they work overseas for example as sailors (in the carrying trade), because they consume the cheaper food abroad.

Perhaps Ricardo's ambiguous use of the word 'trade' had a deeper root: 'The great economists such as Smith, Ricardo, etc. ... entirely ignored [commercial capital]. They only refer to it as a .kind of industrial capital. Where they deal with it specifically, as Ricardo does in connection with foreign trade, they seek to demonstrate that it creates no value (and consequently also no surplus-value). But what holds for foreign trade holds also for commerce within a country' (Marx 1981, pp. 441–2). That international merchants owned (and ordered the construction of) large ships for ocean travel, perhaps would make them count as a kind of branch of industry, unlike land-based merchants with perhaps smaller vessels for riverways.

[1005] During Bukharin's argument that for Marx 'capitalist expansion' happens due to a surplus profit abroad, he interprets 'export of capital' for Marx meant three things: investment in merchant capital, exchange of commodities, and finally 'capitals' (see Bukharin 1972b, p. 245). It is not certain whether by the third item Bukharin means actual foreign direct investment or just investment in general (for example government bonds). Anyway, in Bukharin's understanding of Marx the key topic was not foreign direct investment.]

[1006] See for example Thal 1972, pp. 26, 27, and others. An implication Thal draws is that even had Ricardo dropped the assumption of restricted movement of capital between countries, Ricardo still would not have arrived at the correct understanding of unequal exchange of value between countries (namely according to price of production, since Ricardo in general did not understand this). On this assumption of restricted capital movement itself though, it was true in Ricardo's time for Thal, and still later its effects were limited for Thal, that is, there exists merely a 'tendency' toward an international equalised rate of profit (see Thal 1972, p. 33, with reference to Gerhard Bondi, 'Kritische Bemerkung zum Aufsatz J. Kuczynskis "Über das problem der nationalen Verschiedenheit ..."', *Wirtschaftswissenschaft*, 1, 1957, p. 72). Thal apparently does not believe that Marx's critique of Ricardo involved capital export, or maybe Thal just did not stress this enough, unlike our Marx-interpretation, which we are proposing with this section five.

First occasion in *Theories of Surplus Value*:

> We shall see [...] how far [Ricardo's] view is correct that exceptional profits (when they are not caused by the rise in market price above the value) do not raise the general rate of profit *in spite of the equalisation of profits*, and also how far his view is correct that foreign trade[1007] and the expansion of the market cannot raise the rate of profit.[1008]
>
> The *general rate of profits* is formed through the total surplus value produced being calculated on the total capital [*Gesamtkapital*] of society (of the class of capitalists).[1009] Each capital, therefore, in each particular trade[1010] [that is branch of industry], represents a *portion* of a total capital of the same *organic composition*, both as regards constant and variable capital, and circulating and fixed capital. As such a portion, it draws its dividends from the surplus value created by the aggregate capital, in accordance with its size. [...] It is evident, that the emergence, realisation, creation of the *general rate of profit* necessitates the *transformation of values* into *cost prices* [that is prices of production] that are different from these values. Ricardo on the contrary assumes the identity of values and cost prices, because he confuses the rate of profit with the rate of surplus value. Hence he has not the faintest notion of the general change which takes place in the *prices* of commodities, in the course of the establishment of a general rate of profit, before there can be any talk of a general rate of profit. He accepts this rate of profits as something pre-existent [*als ein Prius*] which, therefore, even plays a part in his determination of value. The *general rate of profit having been presupposed*, he only concerns himself with the exceptional modifications in prices which are necessary for the maintenance, for the continued existence of this general rate of profit. He does not realise at all that in order to *create* [*schaffen*] the general rate of profits values must first be transformed into cost prices and that therefore, when he presupposes a general rate of profits, he is no longer

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[1007] [In English in original: 'der foreign trade', see Marx 1967, p. 378.]
[1008] Marx 1989b, pp. 11–2. Perhaps Marx's phrasing here of 'foreign trade and the expansion of the market' contains just a needless repetiton, or it could already be a proof that Marx distinguished expansion of mere market sales, from 'foreign trade', by the latter meaning capital export.
[1009] '[S]ociety is not identical with the State. The State is the organisation which in certain respects unites the capitalists; but the rule of capitalists extends beyond the boundaries of the State. If English capitalists receive profits from the ownership of Argentine slaughter-houses, Indian jute mills, and Chinese mines, then, of course, these enterprises must be regarded as coming within the orbit of English capitalist society. [...] Labour conditions under English capitalism, therefore, means labour conditions in the United Kingdom, in India, in South Africa, in Argentine railways, in Chinese mines, etc.' (Kuczynski 1937, p. 52).
[1010] The word 'trade' in original in English, see Marx 1967, p. 436.

dealing directly with the *values* of commodities. [...] According to him, the rate of profit rises above the [average] level only in particular trades,[1011] because there the market price rises above the natural price owing to the relation between supply and demand, underproduction or overproduction. Competition, influx of new capital into one trade or withdrawal of old capital from another, will then equalise market price and natural price and reduce the profit of the particular trade to the general level. Here the real level of profit is assumed as *constant* and predetermined, and it is only a question of *reducing* the profit to this level in particular trades in which it has risen above or fallen below it, as a result of the action of supply and demand. Ricardo, moreover, always assumes that the commodities whose prices yield more than the average profit stand above their value and that those which yield less than the average profit stand below their value. If competition makes their *market value* conform to their *value*, then the level is established [*hergestellt*]. According to Ricardo, the *level* itself can only rise or fall if wages fall or rise (for a relatively long period), that is to say, if the *rate of relative surplus value* falls or rises; and this occurs without any change in prices. [...]

But [...] if a new trade comes into being in which a disproportionate amount of living labour is employed in relation to accumulated labour, in which therefore the composition of capital is far below the average composition which determines the average profit, the relations of supply and demand in this new trade may make it possible to sell its output above its *cost price*, at a price approximating more closely to its *actual value*. Competition can level this out, only through the raising of the *general level* [of profit], because capital on the whole [*das Kapital überhaupt*] realises, sets in motion, a greater [*mehr größres*] quantity[1012] of *unpaid surplus labour*. The relations of supply and demand do not, in the first instance as Ricardo maintains, cause the commodity to be sold *above its value*, but merely cause it to be sold above its cost price, at a price approximating *to its value*. The equalisation can therefore bring about not its reduction to the old level, but the establishment of a *new level*.

The same applies [*Ebenso*], for example, to *colonial trade*[1013], where as a result of slavery and the bounty [*Fruchtbarkeit*] of nature, the value of labour is lower than in

[1011] In original in English, see Marx 1967, p. 437.
[1012] Here in German the word is *Quantum*. Marx later uses *Masse*. Both can be translated as 'amount'.
[1013] In English in original. The German editors in a footnote translated this as *Kolonialhandel*, which is in itself correct, but which helps overlook the other meaning of the word 'trade' as 'branch of industry' (see Marx 1967, p. 438).

the old country[1014] (or perhaps because, in fact or in law, landed property has not developed there). If capitals from the mother country are freely transferrable to this new trade,[1015] then they will reduce the specific surplus profit in this trade, but will raise the general level of profit (as Adam Smith observes quite correctly).

On this point, Ricardo always helps himself out with the phrase: But in the old trades the quantity of labour employed has nevertheless remained the same, and so have wages. The general rate of profit is, however, determined by the ratio of unpaid labour to paid labour and to the capital advanced not in this or that trade, but in all trades to which the capital may be freely transferred.[1016] The ratio may stay the same in nine-tenths; but if it alters in one-tenth, then the general rate of profit in the ten-tenths [that is in all of them] must change. Whenever there is an increase in the amount [*Masse*] of unpaid labour set in motion by a capital of a given size, the effect of

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[1014] Labour has no value, so Marx does not endorse Ricardo's expression 'value of labour' (in English in original, Marx 1967, p. 438) and means rather labour-power, thus he is saying the value and price of labour-power is lower in poorer countries. By contrast, the 'price of labour', 'seen as the price of a given quantity of labour', is lower in the rich nations, for instance because the higher intensity of labour there. The 'real price of labour is in fact higher in poor countries than in rich ones' (see Marx 1994, pp. 347–8). 'The *absolute money-price of labour* can thus stand higher in one country than in another, although the *relative labour-wage*, that is the labour-wage compared with the surpus-value created by the labourer, or with his whole value-product, or with the price of means of subsistence, stands *lower*' (Marx 1983b, p. 455, our translation). Again, Marx stresses that the price of labour, compared both to surplus-value and the value of the product, of the poor nation stands above the relative price of labour (in relation to the product) of the rich nation (see Marx 1976b, p. 702). It is true that in a country where the 'conditions are primitive, the minimum wage may be very small (quantitatively in use values) because the social needs are not yet developed and yet it may cost much labour. But if the labour necessary to produce this minimum wage itself were only a trifling amount, then the surplus value created, although it would be high in proportion to the wage (to the necessary labour time), would, even with a high rate of surplus value, be just as meagre (proportionately)—when expressed in terms of use values—as the wage itself' (Marx 1989b, p 43, our correction; Marx 1967, p. 409). Hence we reject the idea that the cause of capital export from rich to poor countries lies in the fact of lower wages of poor countries. 'In great undertakings outside England, in the construction of railways in Asia for example, the English contractors were obliged to employ expensive English workers by the side of cheap native workers. Experience in this and similar businesses has shown that what seems the dearest labour is in reality the cheapest in relation to the output and the surplus-value' (Kautsky 1925, p. 196, paraphrasing Marx 1976, p. 705). Also, as Marx will say in the next sentence, exported capitals level out the surplus profit in the poorer country, so the result becomes that an exported capital's rate of profit is not higher than the domestic, non-exported capital's rate of profit, with no indication from Marx that this profit equalisation is accomplished due to a rise of wages in the poor country. By the way, in a text-fragment that was apparently not included in *Capital* volume three, Marx rejected Smith's idea that the reason profits were high in colonies was a lack of competition among employers, that is, due to a new colony being 'understocked' (see Marx 2012b, p. 380): '*Volle Gedankenlosigkeit*' (Complete thoughtlessness)! Compare: 'But, by lessening the competition of capitals in that [colony] branch of trade, it necessarily raised the rate of profit in that branch' (Smith 1811, volume two, p. 85).

As a cause of capital export Marx for the present argument does not name better natural (objective) conditions of production in colonies, because the higher profit would then be due to a lesser required amount of labour expenditure, which could mean the organic composition of capital is above the average within that single branch (most likely an argicultural one), although as compared to different branches (industrial ones) it woud still probably have an OCC below average, so maybe he still could have mentioned better natural conditions of production.

[1015] The phrase 'new trade' is in English in original. The German editors in a footnote to this phrase explained that what is meant is a new 'branch of industry' (see Marx 1967, p. 438).

[1016] The term 'trade' twice in English in original (see Marx 1967, p. 438)

> competition can only be that capitals of equal size draw equal dividends, equal shares in this increased surplus labour; but not that the dividend of each individual capital remains the same or is reduced to its former share in surplus labour, despite the increase of surplus labour in proportion to the total capital [*Gesamtkapital*] advanced. [...]
>
> Ricardo is therefore wrong when, contradicting Adam Smith, he says: "Any change from one foreign trade to another, or from home to foreign trade, cannot, in my opinion, affect the rate of profits" [...]. He is equally wrong in supposing that the *rate of profits* does not affect cost prices because it does not affect *values*. Ricardo is wrong in thinking that, in consequence of a favoured foreign trade [that is when profits in a foreign trade rise above the general level], the general level [of profits] must always be re-established by reducing [profits in a foreign trade] to the former level and not by raising the general level of profits. [...] The rate of profit does not depend on the price of the individual commodity but on the amount [*Masse*] of surplus labour which can be realised with a given capital.[1017]

Second occasion (which we previously discussed in our subsection 3.2.):

> [I]s the general rate of profit raised by the higher profit rate made by capital invested in foreign trade, and colonial trade in particular?[1018] [...] As far as capital invested in the colonies, etc. is concerned, however [*andrerseits*],[1019] the reason why this can yield higher rates of profit is that the profit rate is generally *higher* there on account of the lower degree of development [*Entwicklung*],[1020] and so too [Marx in original: *und zweitens*] is the exploitation of labour [higher there], through the use of slaves and coolies, etc. Now there is no reason why the higher rates of profit that capital invested in certain branches [*Zweigen*] yields in this way [*die so*], and brings home to its country of origin, should not enter into the equalization of the general rate of profit and hence *raise* this in due proportion, unless monopolies stand in the way. (Adam

[1017]Marx 1989b, pp. 68–72.
[1018] Here admittedly Marx in the orignal uses the German word *Handel* for both foreign and colonial. The phrase 'in particular' is added by Engels, for otherwise it perhaps could seem that Marx regarded colonial trade as not really foreign (see Marx 2012a, p. 306).
[1019] This 'however' is meant to distinguish colonial trade from the case of foreign trade which Marx discussed before (which we left out of the quote).
[1020]We must not assume that capital export always or even usually occurs in the form of the highly-developed machinery that also operates at home. Marx seems to assume that it does not occur in that form of a high OCC, for if it did, then the degree of 'development' in the colonies would be the same as at home.

> Smith is right here, as against Ricardo.)[1021] There is in particular no reason why this should not be so when the branches of capital investment in question are subject to the laws of free competition. [...] An *equalization* still takes place, but not an equalization at the *old level*, as Ricardo believes.[1022]

The above favourable reference to Smith does not entail validation of his particular argument, that capital export causes a domestic *general* price rise, namely through the mechanism of it leaving a *shortage* of capital in domestic branches of production. Marx would rather (perhaps) agree with Ricardo's criticism here. Incidentally, Smith did not celebrate the rise in prices (and general profit rate), since in its turn, he believed this would make the domestically produced commodities less competitive on the world market (so perhaps indicating a possible conflict between the interests of capital exporters and commodity exporters). At the same time, Smith also held an (apparently) opposite view, that capital export was rather a vent for domestic *overproduction* of capital (Ricardo disagreed also on this with Smith).[1023] Marx wrote:

> [...] Ricardo is quite wrong when he seeks to refute Adam Smith by asserting that *overproduction* in one country is impossible. Ricardo denies the plethora of capital, which later became an established axiom in English political economy. [... H]e overlooks that the output level is by no means arbitrarily chosen, but the more capitalist production develops, the more it is forced to produce on a scale which has nothing to do with the immediate demand but depends on a constant expansion [*beständigen Erweiterung*] of the world market. He has recourse to Say's trite

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[1021] This line was dropped by Engels, see restored Marx 2015, p. 342. Marx also quotes here Ricardo in a footnote: 'They contend, that the *equality of profits* will be brought about by the general rise of profits, and I am of opinion, that the profits of the favoured trade will speedily submit to the general level'. (Ricardo 1821, pp. 132, 133.)'.

[1022] Marx 1981, pp. 344–6. Corresponds to Marx 2012a, pp. 306–7. Emphasis restored in Marx 2015, p. 342.

[1023] On a related note, Tony Cliff wrote: 'Even if the surplus of capital created in the process of capitalist accumulation is very small compared with all the capital of the country, its cumulative influence can be tremendous, as it creates pressure in the capital markets, strengthening the downward trend of the rate of profit. [...] The export of capital, by relieving the pressure in the capital markets, diminishes competition between the different enterprises, and so diminishes the need of each to rationalize. (This to some extent explains the technical backwardness during the last half-century of British industry, the pioneer of the industrial revolution in the world, as compared with the industry of Germany, for example.)' (Cliff 1945). Cliff repeats this thought in passing in chapter eight of *Rosa Luxemburg, a Study* (1968 second edition). We find a similar idea in Lenin: 'While, therefore, *the export of capital may tend to a certain extent to arrest development in the capital-exporting countries*, it can only do so by expanding and deepening the further development of capitalism throughout the world' (Lenin 1917, p. 243, our emphasis). As to the latter assumption (development of capitalism in the non-Western world), some identify this Marxist view as close to the apologetic belief in helping less developed countries catch up (see Hudson 2009, p. 241).

> assumption, that the capitalist produces not for the sake of profit, surplus-value, but produces use-value directly for consumption— for his own consumption. He overlooks the fact that the commodity has to be converted into money. The demand of the workers does not suffice, since profit arises precisely from the fact that the demand of the workers is smaller than the value of their product, and that it [profit] is all the greater the smaller, relatively, is this demand. The demand of the capitalists among themselves is equally insufficient. Overproduction does not call forth a *lasting* fall in profit, but it [overproduction] is lastingly *periodic*. It is followed by periods of underproduction etc. Overproduction arises precisely from the fact that the mass of the people can never consume more than the average quantity of necessaries, that their consumption therefore does not grow correspondingly with the productivity of labour.[1024]

Here also follows the third occasion of Marx's criticism of Ricardo:

> In the Chapter "On Colonial Trade" Ricardo writes: "M. Say acknowledges that the *cost of production* is the foundation of price, and yet in various parts of his book he maintains that price is regulated by the proportion which demand bears to supply" (l. c., p. 411).
>
> Ricardo should have seen from this that the *cost of production* [that is, price of production] is something very different from the *quantity of labour employed for the production of a commodity* [in a particular branch]. Instead he continues:
>
> "The real and ultimate regulator of the relative value of any two commodities, is the cost of their production" (l. c., p. 411).
>
> "And does not Adam Smith agree in this opinion (that prices are regulated neither by wages nor profits) when he says, that 'the *prices* of commodities, or the *value* of gold and silver as compared with commodities, depends upon the proportion between the *quantity of labour* which is necessary in order to bring a certain quantity of gold and silver to market, and that which is necessary to bring thither a certain quantity of any other sort of goods?' That quantity will not be affected, whether profits be high or low, or wages low or high. *How then can prices be raised by high profits?*" (l. c., pp. 413–14).

[1024]Marx 1989b, pp. 101–2.

> In the passage quoted, Adam Smith means by prices nothing other than the monetary expression of the *values* of commodities. That these and the gold and silver against which they exchange, are determined by the relative *quantities of labour* required for producing those two sorts of commodities (commodities on the one side, gold and silver on the other), in no way contradicts the fact that the *actual* prices of commodities, i.e. their cost-prices [that is, prices of production] "can be raised by high profits" [l.c., p. 414]. Although not all prices simultaneously, as Smith thinks. But as a result of high profits, some commodities will rise higher above their value, than if the average profits [average rate of profit] were low, while another group of commodities will sink to a smaller extent [*minder*] below their value [than if the average rate of profit had remained low].[1025]

Grossman, – who himself upheld that domestic overproduction of capital, and not a higher profit rate abroad (for he believed in the existence of a world average or uniform profit rate)[1026] explains capital export, – mentions that Smith was not the originator of the idea, and that it was further developed in particular in a 1805 book of William Playfair, who was the first 'to describe this characteristic tendency in the evolution of modern industrial states, the tendency to capital export and to transformation into creditor states. Economic theory neglected this problem during the entire nineteenth century'.[1027] Marx noted this general pattern, though his claim of Venetian lending to Holland seems unsupported:

> Along with the national debt there arose an international credit system, which often conceals one of the sources of primitive accumulation in this or that people. Thus the

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[1025]Marx 1989b, 102–3. The note by the MECW editors confirms our claim: 'Here Marx returns to the question as to what is the influence on the average rate of profit, and thus on cost prices, of profits obtained from colonial and foreign trade in general which exceed those in the metropolis. Marx shows that Smith's views on this question accorded more closely with the truth than those of Ricardo' (Marx 1989b, p. 551).

[1026] 'It is not the rate of profit but the *mass of surplus value* appropriated pro rata that is higher in these [less developed] countries' (Grossman 2021, p. 426).

[1027] Grossman 2018, pp. 616–7 and see following. See also the critical footnotes by William Playfair added to Smith's *Wealth of Nations*, where he criticises Smith (for example pp. 84–5 in 1811 edition, volume two). See also in Grossman 2021: 'Varga starts from the false premise that, whatever its total magnitude, capital can find *unlimited possibilities for investment* domestically. He overlooks the elementary truth that in denying the possibility of an *overabundance of capital*, he simultaneously denies the possibility of the *overproduction of commodities*. Varga believes, further, that the assertion that capital accumulation cannot continue without limit and that capital exports must therefore necessarily occur is incompatible with Marx's conception and can only be sustained from the perspective of Luxemburg's thesis of the necessary existence of non-capitalist countries. In what follows, we want to show that Varga's conception is untenable, that it was precisely Marx who proved that unlimited capital investment in a particular country is impossible and who identified the conditions under which an absolute overaccumulation of capital and therefore also the compulsion to export capital arise' (Grossman 2021, p. 421).

> villainies of the Venetian system of robbery formed one of the secret foundations of Holland's wealth in capital, for Venice in her years of decadence lent large sums of money to Holland.[1028] There is a similar relationship between Holland and England.[1029] By the beginning of the eighteenth century, Holland's manufactures had been far outstripped. It had ceased to be the nation preponderant in commerce and industry. One of its main lines of business, therefore, from 1701 to 1776, was the lending out of enormous amounts of capital, especially to its great rival England. The same thing is going on today between England and the United States. A great deal of capital, which appears today in the United States without any birth-certificate, was yesterday, in England, the capitalized blood of children.[1030]

Foreign investment in industrial capital proper, and investment in public (and other) debts, will be distinguished later in our volume by Dokukin.[1031] When Lenin wrote about 'capital export', he too still used the term in a colloquial broad sense:

> French capital exports are invested mainly in Europe, primarily in Russia (at least ten thousand million francs). This is mainly loan capital, government loans, and not capital invested in industrial undertakings. Unlike British colonial imperialism, French imperialism might be termed usury imperialism.[1032]

[1028] Maybe this is in reference to payments just on military loans: 'In 1616, as part of the war effort against the Uskoks, Venice had sent secretary Christofforo Suriano to the Dutch Republic with the task of hiring ships and troops, an enterprise which involved enormous amounts of money. The ships were provided by a consortium of Amsterdam merchants, whose correspondents in Venice, amongst others Daniel Nijs, Melchior Noirot, Giovanni de Wale, and Stefano van Neste, received payments of thousands of ducats through the Banco Giro' (van Gelder 2009, p. 74).

[1029] '[B]y 1648 the people of Holland were more over-worked, poorer and more brutally oppressed than those of all the rest of Europe put together' (Marx 1976, p. 918).

[1030] Marx 1976, p. 920.

[1031] Compare this terse passage on 'capital in general', which can be about the capital of a nation as a whole, but also of the world: '[C]apital in general is itself a *real* existence *distinct* from particular real capitals. This is recognised, even if it is not *understood*, by current political economy, and constitutes a very important element for its doctrine of evening up [*Ausgleichungen*] [of profits], etc [this is presumably about the constitution of a general rate of profit within a country]. For instance, capital in this *general form*, although belonging to individual capitalists, in its *elementary form* as capital, constitutes capital which accumulates in banks or is distributed by them, and, as Ricardo puts it, is distributed most admirably in proportion to the needs of production. Similarly [*Ebenso*], through loans, etc., it forms one [*einen* (our correction)] level [equal] between the different countries [this is presumably about the world money market and world interest rate]. When it is therefore e.g. a law of capital in general that, in order to valorise itself, it must posit itself doubly, and must be valorised in this dual form, then e.g. the capital of a particular nation which represents capital *par excellence* in opposition to another, must be loaned to a third nation to be able to valorise itself. This double-positing, this relating itself to itself as to something alien, becomes damn real in this case' (Marx 1986b, p. 378, in German see Marx 1983c, pp. 362–3, our adjustment).

[1032] Lenin 1917, p. 243.

Now, there is a fourth occasion where Marx relies on his notion of distribution of surplus value among capitals with different organic composition, in order to criticise Ricardo. This is in the *Grundrisse* (1857–58). Marx there conceived his notion of a 'price of production', although he did not yet use that term.[1033] We quote this fourth occasion:

> From the fact that the profit may be *less* than the surplus value, and hence that capital [may] exchange at a profit without being valorised in the strict sense [*verwerten im strikten Sinn*], it follows that not only individual capitalists, but nations too may continuously exchange with one another, and continuously repeat the exchange on an ever-growing scale, without gaining equally thereby. One nation may continuously appropriate part of the surplus labour [*Surplus-arbeit*] of the other and give nothing in exchange for it, except that here the measure [or extent] is not as [great as] in the exchange between capitalist and worker.[1034]

The line, that 'profit may be less than the surplus value', is criticism of Ricardo, as in the same *Grundrisse* we find before:

> The difference between *profit* and *surplus value* does not exist for [Ricardo]; proof that he is not clear about the nature of either. His procedure right from the start already shows this. Initially, he lets workers exchange with workers—and their exchange is then determined by the equivalent, by the labour time reciprocally

[1033] See Marx 1986, p. 364.

[1034] Marx 1987b, p. 244. In German see Marx 1983c, p. 758. That Marx's critique of Ricardo here in the *Grundrisse* (and in general) is about the law of the price of production is an idea also expressed by Thal (see Thal 1972, pp. 34, 35). Here are a few indications that the concept of price of production is already conceived in the *Grundrisse*; 'The greatest confusion and mystification has arisen from the failure of the hitherto economic doctrines to consider the theory of surplus gain in its purity. Instead, they have lumped it together with the theory of real profit, which is all about the way the different capitals share in the general rate of profit. The profit of the capitalists as a class, or the profit of capital *as such* [*des* Kapitals, Marx's emphasis], must be there before it can be distributed, and it is the height of absurdity to wish to explain its origin by its distribution' (Marx 1987b, p. 74). Marx uses the phrase 'individual capitalists' also here: '[T]he *profit* accruing to the individual capital is *not necessarily limited by its surplus value*, by the surplus labour contained in it, but depends on the excess of the price it obtains in the act of exchange. It may be *exchanged* for more than its *equivalent, and then the profit it yields is greater than its surplus value*. This can only be the case if the other party to the exchange does not obtain an equivalent. The total surplus value, and similarly the *total profit*, which is merely the *surplus value itself calculated in a different way*, can neither grow nor diminish as a result of this operation; what *is modified here* is not the total surplus value itself, but only *its allocation among the different capitals*' (Marx 1987b, p. 144). Thus exchange according to price of production is not equivalent in terms of value. This is a 'violation' or 'modification' of the general law of value, but it is the normal capitalist law of value (price of production). So supposing on an international level we have a purely capitalist exchange according to price of production, then there is a 'violation' of equivalence of value, but this is still not a 'modification' of the normal capitalist law of value (price of production), given that the same happens on the national level within a country.

> expended in production.[1035] Then the instrinsic[1036] [*eigentliche*] problem of his political economy emerges: he must prove that this determination of value is not changed [*verändert*] by the accumulation of capitals—i.e. by the existence [*Dasein*] of capital.
>
> Firstly, it does not occur to him that his first spontaneously evolved [*naturwüchsiges*] relation is only a relation which has been abstracted from production based on capital. Secondly, though it may increase, he assumes the existence of a *particular amount* [*Quantum*] *of objectified labour time* [as a given], and then asks himself how it is *distributed*. But the question is rather how it is created, and it is precisely the specific nature of the relation of capital and labour, or the *differentia specifica* of capital, which explains this. In fact, as De Quincey puts it (X, 5),[1037] modern (*Ricardian*) political economy is only concerned with the dividends, while the total product is regarded as fixed [*fix*], determined by the quantity of labour bestowed upon it—its value is estimated in accordance with that. Ricardo is therefore justifiably reproached for a lack of understanding of [the nature of] *surplus value*, although his opponents understand it even less. Capital is represented as appropriating a certain part of the available [*vorhandnem*] value of labour (of the product); the creation of this value, which it appropriates over and above [that of] the reproduced capital, is not represented as the *source* [*Quelle*] of surplus value. The creation of this [surplus value] coincides with the appropriation of alien labour *without* [receiving an equivalent in] *exchange*, and it must therefore never be clearly understood by the bourgeois economists.[1038]

In *Theories of Surplus Value* Marx will quote the same point from De Quincey, and say a few lines afterwards: 'Hence also his [Ricardo's] confusion of value with cost price [price of production]'.[1039] Then shortly followed the long passage which we have quoted at the start.[1040]

[1035] This is the general law of value, as it exists in simple commodity production.
[1036] Our correction of translation.
[1037] 'But the new economy has shown that all price is governed by proportional quantity of the producing labour, and by that only. Being itself once settled, then, *ipso facto* [by virtue of this], price settles the fund out of which both wages and profits must draw their separate dividends' (*The Logic of Political Economy*, Edinburgh, London, 1844, p. 204, Marx's signs refers to his own except notebook from 1851).
[1038] Marx 1986, pp. 475–6. In German see Marx 1983c, pp. 457–8.
[1039] See Marx 1989b, pp. 59, 60.
[1040] See our quote of Marx 1989b, pp. 68–72.

Our claim about the *Grundrisse* passage also helps resolve a perceived ambiguity in Marx's stance toward the theory of the classics, popularly referred to as 'comparative advantage'. Marx seems to agree (except at first in 1845) with their thesis. At the same time, he criticises the classics, but what he criticises is their (Ricardo's) inability of arriving at the thesis *in the correct way*. Insofar as the mechanism behind the thesis is more important than the thesis itself, then one can say Marx does *not* accept the theory of the classics.
Still, we are aware that the passage does not explicitly mention capital export, and so it could look like Marx understood the relation between countries merely as one of exchange (trade in the strict sense). This impression can be ruled out, for in the same *Grundrisse* some time earlier, Marx criticised Ricardo for conceiving of foreign trade merely as simple circulation, that is trade in the strict sense (and not investment)[1041]:

> (See Ricardo on foreign trade [*auswärtigen Handel*] which he conceives of as simple circulation and therefore says: "Foreign trade can never increase the exchange values of a country" (Ricardo, [*On the Principles of Political Economy, and Taxation*, p. 131,] 39, 40 [The page-numbers Marx gives here are to his earlier Notebook 8 from 1851, which we will return to below.]). The reasons he advances for this are absolutely the same as those which "prove" that exchange as such, simple circulation, that is trade in general, so far as it is conceived of as [simple] circulation, can never raise exchange values, can never produce[1042] [*erzeugen*] exchange value.)[1043]

This remark does not yet prove that Marx had in mind capital export, but it does prove that Marx did not understand international trade as merely circulation. Of course Marx is not objecting to a notion that trade itself does not produce value, and rather is dealing with Ricardo's idea that trade does not raise (or 'induce') the value of a country. If an imported commodity's value is not strictly 'valorised' as Marx put it, then international exchange raises the value in the country importing the commodity which is sold below its value, namely at its price of production. In the passage (with 'valorised'), Marx applies his point

[1041]Marx's term 'simple circulation' means that labour-power is not yet a commodity among the exchange acts (effectively he faults Ricardo for neglecting the specific capitalist aspect of foreign trade, namely its ability for foreign investment, the purchase of wage-labour). See our section one, on the law of value in simple commodity production.
[1042] Better translation: 'trigger', 'induce'.
[1043] Marx 1986a, p. 242 (passage bracketed by Marx). In German see Marx 1983c, p. 236. A few pages later (see Marx 1986a, p. 252) Marx speaks of Ricardo's 'false theory of international exchange' in the same breath as the 'one-sidedness of his theory of rent'. As Marx's criticism of Ricardo's theory of rent largely hinges on the notion of the price of production as distinct from value, then this passage too perhaps slightly supports us.

first to individual capitalists (within a country). In internal exchange Marx points out that commodities are not strictly 'valorised' and hence do not exchange at their value, which is what Ricardo does not consider. This is Marx's notion of the price of production. The price of production of commodities in a branch with an organic composition of capital below the average composition, stands below their value. That branch still makes a profit, namely the same as the general rate of profit, but it 'loses' a part of its surplus value (and so value) to the branches with a higher composition, that is, to other individual capitalists. A general or common rate of profit assumes that the different branches are counted as part of a common total capital, that is, the capital belongs to one country, which in the case of a branch created by foreign direct investment is still owned by the capitalists in the home country. There is nothing in Marx's passage that says the imported commodity should be produced by a foreign business that was not created by the investment of a domestic capitalist, who then also imports its produce as commodities. Capital export can and usually does involve simple circulation, import trade, back to the domestic country.

The remark (on simple circulation) gets a fuller explanation some thirty pages later, again in brackets. Our emphasis is on the last sentence:

> [...] when in motion, it can only realise itself in *new* living labour (this may be [in the form] that previously unemployed labour is set in motion or that *new workers* are created (population [growth] is accelerated); or again [in the form] that a new circle [*Kreis*] of exchange values, that is, the exchange values which are in circulation is enlarged [*erweitert*], which can occur from [*von*] the production side when the released exchange value opens up a *new branch of production*, thus [opens up] a new object of exchange, [that is] objectified labour in the form of a new use value; or *that the same is achieved by the introduction* [*hereingebracht wird*] *into the circle* [*Kreis*] *of circulation, through expansion* [*Erweiterung*] *of trade* [*Handels*], *of objectified labour* [*that is present or expended*] *in a new country*).[1044]

Thus Marx equates the expansion of foreign trade with the opening of a new branch of production, that is, a setting in motion of new workers.

The preceding remark (on simple circulation) mentioned page-numbers of Notebook 8 (1851). Here are those early Marx comments, made in context of Ricardo's views on foreign trade:

[1044] Marx 1986a, p. 274 (brackets again by Marx), our correction (see Marx 1983c, p. 266).

> The existing values thus can not be increased. But can we not call into life new labour? And the money, does it stand in relation only to [already] created values or to those that can be created? And can one nation not steal from another nation just as well, as one individual can from another individual?[1045]

He repeats that criticism of Ricardo:

> To the extent therefore that the sources [*Quellen*, maybe also: 'resources'] of exchange are inaugurated [opened, launched], [to that same extent] values are multiplied [*vervielfältigen*], in domestic as in foreign trade. And the accomplishment of exchange therefore creates new labour and puts new land in cultivation [*sezt* (sic) *neues Land in Bebauung*], and thus [exchange] is not measured by it [namely by the already existing values in circulation].[1046]

These passages support our claim that Marx has the assumption that the imported commodities still have to be created, by new (additional) labour. A mere act of exchange, simple circulation, trade in the strict sense, buys commodities that already were produced, already were in circulation. The setting in motion of new labour requires capital investment. If the new production company abroad were not created ('called into life') by foreign direct investment (capital export), but already existed or is owned by a local capitalist, then still the expansion of its market by simple trade requires additional production and so additional labour, which requires capital investment, which requires it borrows money that must be available or disposable. This money comes not from mere trade itself. One can argue that it does, namely if the funding for the hiring of new workers comes from pre-orders that are paid in advance (by the future importer). This would not be capital export in the strict sense, yet we believe it is already not mere trade either. Also, such generous interest-free loan is unrealistic.

6. The content of value, and the process of trade

[1045] Marx 1986b [1851], p. 370 (our translation). Further see Pradella , p. 101.
[1046] Marx 1986b [1851], p. 371 (our translation).

In section one we have discussed the existence of the *law* of value, that is the belief that prices (proportions of exchange) are determined by the equality of two values. In this section we attempt to show the existence of the content itself of value. Within a country there exists a uniform, average labour, that is simple (unskilled) labour, and there exists an average labour intensity. These are absent on a world scale (since it is divided in different countries), so does that mean that (world) value has no content. As there is no world average labour intensity or world average simple labour, is there thus no proof for the existence of the content of (world) value?

There seems to be a parallel in the formation of simple labour and average labour intensity, to that of abstract labour. Are there differences between the abstract labours of different countries, like there are for labour intensity and average labour? Or does a uniform abstract labour exist on a world scale? If so, why is such 'formation' possible, but not the formation of a uniform world labour intensity (or uniform world simple labour), even though their formation seems almost parallel?

Indeed there is not a plurality of national abstract labours, but only one world abstract labour. Marx calls this uniform worldwide framework 'social':

> … the development of the market to a world market … causes … *abstract labour* [to develop] into social labour. … Capitalist production rests on the *value* [as a social one] or the development of the labour embodied in the product as a social one. But this is only [possible] on the basis of foreign trade and of the world market.[1047]

We argue that a uniform world abstract labour is as real as an average labour intensity within a country. Just as the formation of an average labour intensity within a country is not caused by the process of trade (or exchange), so too we argue that a world abstract labour is not caused by exchange. If world abstract labour exists, then this means a world value can exist, as Dashkovsky proposed.

We will here talk about human labour in general, and the process of this abstraction.

> […] different kinds of labour have to be reduced to uniform, homogeneous, simple labour, in short to labour of uniform quality, whose only difference, therefore, is

[1047]Marx 1989b, p; 388, our adjustment. 'Die kapitalistische Produktion beruht auf dem Wert oder der Entwicklung der in dem Produkt enthaltnen Arbeit als gesellschaftlicher'.

> quantity. This reduction appears to be an abstraction, but it is an abstraction which is made *every day* in the [*in dem*] social *process of production*.[1048]

If Marx meant in a social process of *exchange*, he would instead have written 'gesellschaftlichen *Austausch*prozess'. If the reduction happened *by* exchange, instead of exchange merely indicating that the reduction process has taken place, then the question of how the reduction occurs would be answered (namely by exchange), but Marx himself did not claim that he provides the answer, just hinting that the society-wide process 'goes on behind the backs of the producers'.[1049] For one proof of the existence of abstract labour, he goes back to an era even prior to a division of labour among simple commodity producers: although 'tailoring and weaving are qualitatively different forms of [concrete] labour [there are] states of society [*Gesellschaftszustände*] in which the same man alternately makes clothes and weaves. In this case, these two different modes of labour are only modifications of the labour of the same individual and not yet fixed functions peculiar to different individuals, just as the coat our tailor makes today, and the pair of trousers he makes to-morrow, require him only to vary his own individual labour'.[1050] By the way, Marx's expression of 'our tailor' involves just a single producer, which is normal for simple commodity production (whereas usually a company has several employees). Let us take a company producing coats. Usually there is a division of labour within the company. The 'socially-necessary labour time' of a coat is already an addition of the time of several different kinds of (concrete) labour, for instance, cutting cloth, stitching, adding buttons, and so on. 'Tailoring' is already an abstraction or reduction of multiple concrete labours to one kind (the created value of one hour of cutting cloth is equated to that of one hour of stitching). All of this occurs without and before exchange.[1051] Just as *one company* produces a commodity

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[1048]Marx 1987b, p. 272, our emphasis.

[1049]Marx 1976b, p. 135. 'It is difficult to ascertain the proportion between two different quantities of labour. The time spent in two different sorts of work will not always alone determine this proportion. The different degrees of hardship endured, and of ingenuity exercised, must likewise be taken into account. There may be more labour in an hour's hard work than in two hours' easy business; or in an hour's application to a trade which it cost ten years' labour to learn, than in a month's industry at an ordinary and obvious employment. But it is not easy to find any accurate measure either of hardship or ingenuity. In exchanging, indeed, the different productions of different sorts of labour for one another, some allowance is commonly made for both. *It is adjusted*, however, not by any accurate measure, but *by the higgling and bargaining of the market*, according to that sort of rough equality which, though not exact, is sufficient for carrying on the business of common life' (Smith 1909, p. 37).

[1050] Marx 1976b, p. 134.

[1051]Furthermore, the location of the company's employees, who perform different kinds of concrete labour, might be spread over several different countries. Thus the value of a coat, as a composition of a plurality of average national labours, is not the result of the production of a single nation. And again, this occurs without exchange (the company can transport its coat in unfinished form over the borders to one of its affiliates, without needing to sell it).

by different concrete labours (internal division of labour), so too historically, before the separate existence of tailor and weaver as distinct simple commodity producers (and exchangers), *one person* could perform different concrete labours, and so related to them as merely modifications of his general (abstract) labour.

Marx ruled out that this happens by wage differentials (exchange of labour power): 'At this stage of our presentation, the category of wages does not exist at all'.[1052] The reduction of complex to simple average labour by the social process seems in the eyes of producers, though, to be established by convention ('handed down by tradition'), perhaps meaning that particular labour skills must get so much more respect than simpler skills. Though as Marx here does not think of wages, he must mean by 'tradition' not conventions on wage differentials, but mean that when for example the labour of a tailor's coat counts as a different proportion of value although it has the same labour-time as a spinner's linen, this seems, in the eyes of the tailor and spinner, a result of convention or custom. It is for Rubin (in one place) merely this point, opposing subjective conventions to the objective real process, that Marx made also with the following passage: '[Smith] mistakes the objective equalisation of unequal quantities of labour forcibly [*gewaltsam*] brought about by the social process for the subjective equality [*Gleichberechtigung*] of the labours of individuals [*individuellen Arbeiten*]'.[1053]

This passage, though, is not (just) again on the *practical everyday* producers' subjective belief that the process reducing complex to simple labour happens due to tradition or their feelings. Its additional, perhaps more important, point, repeated in *Capital*,[1054] is on Smith's *theoretical* belief, that equally paid labour-powers (for Smith: labours) result in products of equal value. This is what Marx meant by 'subjective equality' (not feelings or ideas of tradition, but the real process of payment of wages, which is in a sense 'subjective'). Smith's position entails that if only wage-labourers with different skill levels would undergo the reduction to one another as equal by the process of exchange, namely just by receiving an equal pay, then their produce would be reduced to the same value (by the 'subjective' act of wage payment).

What then is the 'objective equalisation' of which Marx speaks? In criticising the position of Smith, Marx indicates that Smith's error was conditioned by his focus on wage labour, and that, by contrast, a focus on simple commodity producers facilitates clarity:

[1052]Marx 1976b, p. 135.
[1053]Marx 1987b, p. 299, quoted by Rubin 1973, p. 167; earlier critique of Smith in Marx 1986a, p. 533.
[1054]See Marx 1976b, pp. 137–8.

> Of course [*Allerdings*: 'But then'], [Smith] has the modern wage-labourer in mind. Adam Smith's anonymous predecessor [in 1738 ...] is much nearer the mark when he says:
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> 'One man has employed himself a week in providing [concrete work on] this necessary of life [a particular use-value] ... and he that gives him some other in exchange, cannot make a better estimate of what is a proper equivalent, than by computing what cost him just as much [simple abstract] labour and time; which in effect is no more than exchanging one man's labour in one thing for a time certain, for another man's labour in another thing for the same time' (*Some Thoughts on the Interest of Money in General* etc., p. 39).[1055]

The 1738 author's line directly before this (not quoted by Marx), confirms Marx's indication that the author excluded wage labour from his focus: 'In the more ancient times, when commerce was carried on merely by bartering one commodity for another, I apprehend no other rule could be made use of in exchanging one thing for another, but the quantity of labour severally [*individually* or *independently*] employed in producing them'.[1056]
Kautsky's use of the term 'simple commodity production' in his 1887 popular exposition of Marx's economic teachings, underscored this point of Marx.[1057] Indeed, elsewhere Rubin himself explained that Marx's critique of Smith is located in Smith's backward projection of the distinct capitalist phenomenon of purchase of labour power (wages) into the analysis of value, which is instead determined by the 'objective' quantity of labour, as is most clearly the case in simple commodity production.[1058] If those who claim that it is the exchange process which reduces complex to simple labour, agree with this Marxist critique of Smith that the reduction happens not by the subjective *Gleichberechtigung* of the labours (labour-powers) in exchange, then in what sense is exchange of ordinary commodities (excluding labour power) a more 'objective' process of reduction, given that this exchange can be 'subjectively' carried out directly between haggling craftsmen (and so not 'forcibly' brought about behind their backs)? It seems to us more plausible that the 'objective' process of reduction must refer to their production process.

[1055]Marx 1976b, p. 138.
[1056]*Some Thoughts* etc. 1738, p. 39, – this quote is given in *La teoria del valore nella storia delle dottrine e dei fatti economici*, Ricca Salerno 1894, p. 33; and in *Die geschichtliche entwicklung der modernen werttheorien*, Rudolf Kaulla 1906, p. 90.
[1057]See Kautsky 1925, pp. 19–20.
[1058]See Rubin 1979, pp. 188–96.

In the 1850s Marx himself noted a particular famous example of independent producers (so, not wage labourers), who in mining perform the simple average (uniform) labour:

> [T]his reduction is, in fact, completed by the positing of the products of all kinds of labour as values. As values, they are equivalent to one another in certain proportions; the higher sorts of labour are themselves estimated in terms of simple labour. This becomes clear immediately when it is considered that, e.g., Californian gold is the product of simple labour, and yet every kind of labour is paid with it. This means that the qualitative distinction is abolished, and the product of a higher kind of labour is, in effect, reduced to a certain quantity of simple labour.[1059]

Californian gold mining was perhaps an exceptional case of mining conditions (namely non-capitalist), further idiosyncratic as centuries prior to the European conquest of America, the highest *capitalist* development in Europe was in (silver) mining in Central Europe.[1060] Already just a decade later (after Marx's above comment), in 1868, Marx excerpted a review in *The Money Market Review* (28 September 1867) of Kitto's *The Goldfields of Victoria*: 'The occupation of the mere digger is drawing to an end, while that of the practised miner is being rapidly developed [...]', adding the comment: 'Expropriation of Individual Labour (Property)'.[1061] If labour in silver and gold mining becomes higher skilled than that in other branches of production, this would, for those who believe exchange explains the reduction to simple labour, make their explanation more tenuous, for then it is unclear what the simple labour is, to which all others are reduced.

Marx also wrote that 'abstract labour', as the 'particular specificity' of the capital–labour relation, is due to 'the development of a particular *material mode of production* and a particular stage of development of the industrial *productive forces*. (This point in general to be particularly developed in the context of this relation later, as it is already *posited* here in the relation itself, while [*während*] in the case of the abstract determinations [such as], exchange value, circulation, money, it is still more relevant to our subjective reflection [*mehr noch in unsre subjektive Reflexion fällt*].)'.[1062]

Our alternative translation of this last part: '*whereas* in the case of the abstract determinations, exchange value, circulation, money, it still more *falls* in our subjective

[1059]Marx 1987, p. 222.
[1060]Incidentally wiped out due to the new American competition, see Kautsky 1913 (translated in Gaido and Rodman, draft).
[1061]Marx 2021, p. 274.
[1062]Marx 1986, pp. 232, 233.

reflection'. So we interpet the sentence as an opposition between objective material mode of production and subjective process of exchange. And abstract labour is 'posited' already in the material mode. That in exchange it 'falls' into 'our subjective reflection' maybe is even negative, perhaps meaning that it seems due to mere subjective (non-social, natural) opinion.

This thought of Marx was better expressed earlier and elsewhere, namely in *Poverty of Philosophy*; first Marx just mentions the opinion of an American economist that it is 'competition' which determines the proportion of skilled to simple labour; but then Marx asks (as to undermine such opinion): does this not presuppose 'that simple labour is itself taken as measure of value?' '[I]t presupposes that simple labour has become the pivot of industry. It presupposes that labour has been equalised by the *subordination of man to the machine* or by the *extreme division of labour* … [T]his equalising [*égalisation*] of labour is not by any means the doings of M. Proudhon's eternal justice; it *is* purely and simply *the result of modern industry'*.[1063] And so for Marx this equalisation process is *not the result of trade*. Trade or exchange compares all commodities to money, but then, again (for those who believe abstract labour is created by exchange), money itself (gold) is created by a certain type of labour in a process of production.

From this thesis that average (abstract) labour is not the result of exchange, it follows that with the abolition of commodity exchange in socialism, abstract labour still remains (because there remains a division of labour, that is a plurality of concrete labours, while the progression of industry lets most work resemble the same average labour in terms of skill).

Those who seek to abolish abstract labour in socialism, face the question how the magnitude or amount of labour will be known, and they answer that the magnitude of each concrete labour will be found by measuring its concrete products. It is an appealing idea, because, given that the equalisation problem of concrete labours to abstract labour in capitalism remains unresolved (or left to the magic of exchange), then in socialism one does not have to bother with this problem, because there is no market or money, nor (in their view) abstract labour. In 1925 the Soviet writer Voznesenksy argued for the abolition of abstract labour. As an alternative (so he believed), he advocated for the type of measurement of concrete labour in socialism by 'concrete form' (namely by products or things). He was criticised by Dashkovsky for seeking the abolition of abstract labour:

[1063]See Marx 1976a, pp. 126–27, our adjustment, our emphasis. We draw attention to the part '*or* by the extreme division of labour'. A basic point made by Marx (and as we noted, by Torrens too) is that (historically) a society can have a division of labour even without exchange or market. See the 1882 article 'The Free Society' of Kautsky, which gives the example of the Indian village commune.

> [In a] commodity society the equation [or equalisation] of labour is possible exclusively through the masked form of a comparison of the products of labour, as commodities, whereas in a socialist society these two acts are completely independent from one another. This is the aptly captured difference. But in what form must this equalisation of labour happen [in a socialist society]? An equalisation of labour, expressed in various concrete forms, is possible only through their reduction to one standard. Voznesenksy says that 'concrete labour can magnificently be measured precisely in its concrete form. In relation to this was not left any doubt by the observation of Marx in section 4 of chapter 1 of *Capital*, when he investigates feudal production, in particular, patriarchal peasant production'. In these notes of Marx there is not what Voznesensky found there, who simply does not understand what the issue is. 'Concrete labour can be measured in concrete form'. But what, essentially, does such measurement mean? To measure means to count an *amount*. The amount of labour must be expressed in determined *units*. If Voznesensky takes for such unit any concrete thing, like the product of concrete labour, then in the calculation it will play not the role of a thing as such [for use], but of benchmark of a determined amount of labour energy [namely what was expended on this concrete thing]. [(We insert Dashkovsky's footnote on piece wages:) This is how Marx characterises the measuring of labour by the amount of produced commodities: 'It is [in piece-wages] not, therefore, a question of measuring the value of the piece [or thing] by the working-time incorporated in it, but on the contrary, of measuring the working-time the labourer has expended by the number of pieces [things] he has produced. In time-wages, the labour is measured by its immediate duration; [whereas] in piece wages, [labour is measured] by the quantity of products [or things] in which the labour has embodied itself during a given time'.[1064]] The attempt, however, to measure with the help of given [concrete] things the amount of labour of other industries would [hypothetically] lead Voznesensky, completely unaware [to himself], to the fetishism of the money form, bringing it in this way completely unexpectedly into socialist society. The attempt to turn away from abstract labour leads... to commodity fetishism, such is the fate of excessive "deepening" of concepts [like abstract labour].[1065]

[1064]Marx 1976b, p. . The idea that piece-wages are a form of capitalist planning, shows that 'planning' is vague word or useless concept for demarcating the meaning of communism.
[1065]Dashkovsky 1926, 'Abstract Labour and the Economic Categories of Marx'.

Dashkovsky does not seem to believe that abstract labour is the result of exchange, so he certainly does not believe that abstract labour is the result of just some mental exercise by socialist calculators. He moreover does not seek the abolition of abstract labour. But he points out that measuring labour by counting concrete products, is counting by a thing (and money is a thing), and he is against money, not because it is a thing (gold), but because this thing is used as an indicator of labour (be it concrete or abstract). His view is thus that labour calculation can be done without reliance on things as indicators of the amount of labour, namely by reliance instead on amounts of abstract labour-time (that is not necessarily found *only* in the existence of money or exchange).

Abolition of the law of value(s), and in general abolition of exchange, does not entail abolition of abstract labour. The fetish belief or complaint in capitalism that money (a mere thing) has power due to its concrete body, is just restated were one to believe that money is a malevolent power due to it embodying or representing abstract labour. A program of abolishing a concrete thing (gold) would be just as ridiculous as a program of abolishing abstract labour. Money is (or *embodies*) time or abstract labour, and persons in a capitalist society probably are unaware that they are engaged in the attempt to obtain as much time or abstract labour as possible, but time or abstract labour is not by necessity (embodied in) money.

Given that there is no market or exchange or price in a socialist society, then there is no law of value in socialist society by definition.[1066] As to the question of the abolition of value itself (not its content, and not its law), we stress again that in Marx's analysis or terminology, value is market value. So the question is really about the abolition of market value. We believe that it too will be abolished, as with the lack of price it follows there cannot be a unified expression of a product type's value (if we assume that there still will exist different conditions in which groups of producers will work). But 'value' in the sense of individual value, actual labour that different producers expend on the same product type in different conditions, will not be abolished.

For a simple commodity producer, the communist idea of surrendering all of the fruits of one's own labour to a single nameless collective seems like a totalitarian nightmare. And that

[1066]The *law* of value is about determination of price by the equation of two values incorporated in products. See the version of chapter one in the first edition (1867) of *Capital*: 'It is relatively easy to distinguish the value of the commodity from its use-value, or the labour which forms the use-value from that same labour insofar as it is merely reckoned as the expenditure of human labour power in the commodity-value. … It is different with the value-form which exists only in the relationship of commodity to commodity' (marxists.org/archive/marx/works/1867-c1/commodity.htm).

everyone else too surrenders their fruits of labour means there is no possibility for him to even directly rely on the help of other individuals (in case he wants some products that they produce), as these individuals too were bound to surrender all their labour to the collective. What he forgets is that this nameless collective exists already in an 'atomistic' market society. He is not free to surrender his labour's fruits to individuals in exchange for something of his own will. He surrenders his labour's fruits admittedly not to a nameless collective of people, but worse, to a nameless collective dead thing, namely money, and whose amount is determined by all other producers in society, and not by his own labour time alone. The synonym Marx uses for market value, namely social value, already indicates the sociality inherent to a market society.

Dashkovsky's cryptic criticism (of Voznesensky) seems based on the fact that the money material too, as the product of concrete labour of an industry like any other commodity, is a benchmark of an amount of concrete labour (namely gold mining). It is true that Voznesensky attaches no greater importance to the counting of *one particular* product (gold) than to all other types of products in his counting of concrete labour in a socialist society, but his view implies a comparison *among all* the amounts of concrete labour in different industries by means of counting the products of these industries, so in his case he compares the amount of labour to several different types of things (produced products include also animals, like cattle), that is several equivalents, instead of just one dead thing, gold. Voznesensky's scheme (which is just a brief comment) seems good in that it apparently sees the abolition of money, but in fact he regresses to a less developed equivalent exchange system, with value expressed in a variety of things (instead of just one, money). If in socialism one measures the amount of concrete labour performed in, for example, the gold mining industry by the output of produced pieces (gold), that is by the 'concrete form', then this is concrete labour. It would function as an equivalent (or precursor-form to money), if one compares the concrete labour of all other industries to the concrete labour of the gold industry *calculated via its output*.[1067] By *counting the amount of concrete products* in order to measure the total amount of (concrete) labour in a particular industry, Voznesensky's socialist calculator would recognise, for workers in this branch as a whole, not their actual performed time (which is not measured), but their (total) output. It would resemble a sort of

[1067]Historically (since the Physiocrats), the most popular choice for the role of measure of comparing different concrete labours would likely be the grain (corn) industry, so the concrete labour of all other industries would be calculated and reduced to the labour embodied in grain (and the weight unit of grain, for example 1 ounce, would be called the 'grain standard' of money in such economy). Calculations of inflation indices (due the changes in 'value' of non-commodity 'money') track a basket of concrete amounts of various products, with grain as food usually prominent.

branch-wide piece-wage calculation, instead of measurement of a branch's performed labour by time. How would Voznesensky be able to know the amount of labour expended by the iron and grain industry, when all he has is merely a comparison of the physical total output of iron to that of the total output of grain. Such a physical-concrete comparison or relation of amounts of iron to grain would not give knowledge about the total amount of live-expended labour in each of the two industries.

Engels wrote of the abolition of value in socialism and in the same breath he spoke of the importance of measuring labour in socialism. The measurement of labour *by time*, which is what Dashkovsky seems to prefer, does not mean measurement of value (market value).

There is no separate socially-necessary labour time 'in general' (independently of concrete product types), but only socially-necessary labour time for particular product types. One could add up all the different particular socially-necessary labour times, and this would give the sum total of labour time for all the various product types together, though this sum figure of socially-necessary labour time 'in general' remains dependent on particular labours as its component parts. If one takes the average of all the various socially-necessary labour times (that is divide this sum figure by the amount of all individual products from all types), one would get an average socially-necessary labour time of a non-existent product type (an 'average' product type), which is without any theoretical or practical use.[1068]

But in case of abstract labour, all concrete labours are equated (or reduced) to it. That means it is not the result of an addition like the previous figure (sum total of particular socially-necessary labour times). It also means that it already exists prior to exchange (for how can concrete labours be reduced to it, if it does not already exist prior to them being reduced to it?). Abstract labour is not an averaging derived from all the summed-up concrete labours. There does exist an average labouring person, which is of theoretical and practical use, unlike a non-existent average product-type. Marx emphasised the word 'exists':

> This abstraction, human labour in general, *exists* [*existiert*] in the form of average labour which, in a given society [*einer gegebenen Gesellschaft*], the average person can perform, productive expenditure [*bestimmte produktive*] of a certain amount of human muscles, nerves, brain, etc.[1069]

[1068] If there was only one type of product produced in society, then one could speak of socially necessary labour time in the singular, but it is difficult to just imagine such a one-product situation even at a moment in the beginning of mankind's history.

[1069] Marx 1987b, p. 272. The emphasis is Marx's own in German.

If those Marx-reconstructors can leave aside for a moment their dispute about whether Marx really imbued such a basic physiological understanding to his term ‘abstract labour’, then, as concerns the phenomenon that is described with the above definition (which is of unskilled, simple labour), they surely agree that it is not something that can be abolished in socialism or is abolished when there is no more exchange (and recall that a society without exchange can have a division of labour). Maybe a larger percentage of the types of labour will involve higher skills (compared to capitalism), but the denominator of these different kinds of labour will remain simple labour (while on the other hand, this does not mean that all persons’ dexterity will become equal).

As to the intensity of labour (or what Postone called ‘historical time’), even before socialism there are differences, addressed in Sandemose’s essay, and so in socialism the present capitalist level of labour intensity could be abolished.

Chapter thirteen

The Marxian Concept of Time and Measure

Jørgen Sandemose

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I. '*State, foreign trade and world market*'
II. Concept of labour as ontological groundwork
III. Intensification of labour
IV. The forms of value
V. Forms of value and genesis of world market
VI. The measure of value: Intensity of time
VII. The fundamental inverse ratio
VIII. Rounding up the bill

The primary content of this book is a discussion of foreign trade between theorists devoted to a Marxian stance. The fact that the authors were amongst an avant-garde that perforce were pushing frontiers in Marxist economic theory, since they had to take responsibility for the first attempts at statal action in the field,[1070] gives an eigenvalue [characteristic significance] to the content.

However, when one is to give a comment on such literary expressions a century of age, one also has to point to different adaptations of the theory of Karl Marx, changing over time. This in its turn requires some exposition of that economic theory in its totality. Consequently, it must include a thorough analysis of Marx's theory of value, as developed in the first three chapters of his main work *Capital*.

There is certainly nothing artificial about this, for a serious study of those chapters reveals that their background lies in the reflections in the section "The method of political economy" in Marx's "Introduction" to the *Grundrisse* (1857-1858), whose contents also lead directly over to the theory of value as it is exposed in his book *Zur Kritik der politischen Ökonomie* from 1859.

The crucial point lies in the *general concept of simple labour* that is given the main role in the said *Einleitung*. Such a "labour" is shown to be a result of the development of economic forms inside different cultures and nations, parallel with the growth of foreign (or better:

[1070] [For example Petrov, see our biographical note.]

international) trade into a total, comprehensive world market. In Marx's general economic theory, with the *Zur Kritik* as an intermediary between *Grundrisse* and *Capital*, the next step is the analysis of "the commodity" which initiates the latter work, and which consequently must be thought as related not only to "domestic" markets, but rather to markets in general. In fact, the forms of value developed early in *Capital* depict two geneses in interaction – the one of a home market, the other of the world market. However, this happens with the proviso that the concrete analysis of the basic features of the economy considers all phenomena as developing inside a *national* frame. This is a fundamental – often overlooked – scientific abstraction forming the basis of Marx's applied method. This abstraction, however, is also concrete. It functions in two main ways: First, as will be seen, in both Volume II and Volume III, Marx introduces the role of import (of means of production as well as means of consumption) into the *actual nation* from other points in the world market. Second, in the construction of the "reproduction schemes", he gives specific reasons for presupposing that any industry (in casu: gold production) that is deemed necessary for the general model of social reproduction, should be treated as belonging to one and the same nation.

Now, as will be seen, different value forms are just as many different ways of *measuring* value. Marx's thesis is that the amount of *simple* labour is the measure for the value of any commodity. In testing this proposition, he takes as his point of departure that a *magnitude* of value is a certain *extension* of *time*. The use of such a restriction means, however, that the comparisons of equations being analysed in each form are presupposed to belong to one and the same national economy, so that the question of the status of the *intensity* of labour apparently leaves the scene. For a special and undifferentiated level of such an intensity is simply a part of the definition of a nation.

Still, in studying the texts of this anthology, the reader will here and there notice the term "nodes",[1071] and how it is employed to depict the role of national economies – their relative inner strength – on the world market. The case is illustrative, for the most conspicuous – and most important – factor in international capitalist competition is the national differences in intensity of labour, and such differences are feasible to be measured by degrees.

The plural term "*nodes*" originally refers to a line with a series of knots, measuring intervals and speed of movement.[1072] In measuring practices at large, it soon came to denominate

[1071] [See Petrov 1930 in this volume, who himself identified it as a Hegelian term.]

[1072] [The same meaning in English as 'knot', but for our context 'node' will sound better. As Sandemose will indicate, 'The term knot dates from the 17th century, when sailors measured the speed of their ship using a device called a "common log." The common log was a rope with knots at regular intervals, attached to a piece of wood shaped like a slice of pie'. https://oceanservice.noaa.gov/facts/nautical-mile-knot.html]

marks or entities used as specifying quanta for the measure of a certain specified quantum. G.W.F. Hegel used the term in this way, i.a. inspired by J.W. Goethe's "elective affinities". As will be shown, Marx took over the expression, and de facto used it even in his elementary analysis of the "form of value" in the first chapter of *Capital*. In a more specific sense, he later introduced the term "Knotenpunkte" to characterise conversions from quantity to quality (and conversely) in the process of analysing labour or labour time as measure of values.

It is therefore an especially important task to show the nature of the national labour intensities, as it functions inside the Marxian theory of value. All measuring of intensity (momental force of labour power) go on with degrees, while measure of extension (here: extensive labour time) happens via numbers – like *one* working hour, day, week, etc. In this article, we attempt to show how this nature in principle is the same in all different countries where commodity production is present, and relatively independent of the prevailing developmental levels of capitalist production. It is our aim to give a general picture of Marx's theory of the possible measures of capital and value, and especially how value in general is measured by intensive as well as extensive means. The close connection between Marx's and Hegel's methodical views will be underlined.

We will try to demonstrate the said theory through an amendment of Marx's exposition in *Capital*, in showing how his concept of time is actually structured,[1073] and how it is possible that it appears both extensively and intensively. The consequences for his view of the possibility of human freedom are pointed out. In describing Marx's theory of the most basic value forms, we attempt to demonstrate how they pass over into *circulation* on a national level, while contrariwise they do not generate such an end point in the course of international trade and on the world market.

Here, we are assisted by the fact that the value expressions of commodities, as presented through the value forms, can also fruitfully be denominated 'nodes'. This I try to substantiate with a background in Marx's reading of Adam Smith's theory of labour. It also brings the former's theory of measure more into accordance with general terminology in the field, Hegel's path-breaking analysis included.

Of critical importance is our thesis that all scientific measuring in the Marxian system depends on the national rates of surplus value (what I call "the fundamental inverse ratio"), as composed of a homogeneous "substrate" of living labour.

The reader should keep in view the interconnectedness between the degree of intensity of the exploitation of the workers inside any country, and the "comparative advantages" (or

[1073] [On the structure of time also see Sandemose 2010a, pp. 278–86.]

"disadvantages") that the capitalist class of that country acquires on the world market. The levels of mechanical intensity and work discipline are the prime differentials in the culture of nations in general. Therefore, the corresponding differences between nations are the most stubborn obstacles for creating a unified world market or any so-called "capitalist world economy". Since on this market there is no actual commodity *circulation* system either, reciprocal alienation prevails. Anyway, it will be a misunderstanding to say that this introduction concentrates in any disproportionate way on the aspect ot the *intensity* of labour. The point is rather that the structure of that measurable intensity, and its perennial interaction with measurable extensivity, is here presented more comprehensively than what is usual.

1. *'State, foreign trade and world market'*

In his famous Preface to *A Contribution to the Critique of Political Economy* from 1859, Marx starts up with the following overview: 'I examine the system of bourgeois economy in the following order: *capital, landed property, wage-labour; the State, foreign trade, world market*'.[1074] This plan was in principle realised as regards the three first categories, making up the bulk of the publication *Capital* I-III. The three last ones were not completed as such, but sources tell us that Marx never gave up his positive view of such a general exposition. We are consequently free to regard a series of his later remarks on the last three categories as relevant for his mature view of how such a theoretical whole should be constructed. Still, it goes for all the three categories that the references are scanty in his texts, making a reconstruction both necessary and difficult.

The first *three* categories together make up a description of the economic base of what Marx calls *the capitalist social formation*. The *state*, on the other hand, belongs to, or rather is the core factor, in what Marx calls the 'legal and political superstructure [...] to which correspond definite forms of social consciousness'.[1075] In our exposition, especially when we come to the so-called 'forms of value' or 'value forms', it will appear that in Marx's view, in bourgeois society, members of all classes basically are acting rather slavishly, so that '[t]he natural laws of the commodity (*der Warennatur*) manifest themselves in the natural instinct (*im*

[1074]Marx 1972, p. 7; Marx 1987b, p. 261. [See the Marx-editions in Sandemose's own list of references, which sometimes differ from the ones we used throughout the volume (so we we kept his references separate from the volume's general list of references). We add here the corresponding edition alongside (see list of references of our volume). Shortly before his death, Sandemose left some of the style guide compliance to us (Noa Rodman).]
[1075]Marx 1972, p. 9; Marx 1987b, p. 263.

Naturinstinkt) of the owners (*Besitzer*) of commodities'.[1076] One consequence of this is that the bourgeois society therefore is the first known one in history that is not, after coming to maturity, structurally dependent on physical violence for surviving. It is all the more dependent on mystifications, which according to Marx grow out of the laws of commodity production and circulation, and are steadily making themselves felt in course of the accumulation of capital. For this reason, the bourgeois *state* is not primarily an overt, immediate state power, and it appears rather as a mighty, spiritual moral force in relation to inhabitans of a given nation.[1077] Its task is to keep commodity production in order, and to that extent maintain the interests of any commodity owner, albeit only precisely to the extent of his representing such an ownership of property. If a man possesses nothing but his own working capacity, he will be defended as such by the state. The same goes, *mutatis mutandis*, for all commodity owners and commodity 'guardians' – especially those who are integrated in the three class categories mentioned. The state is set on upholding precisely this peaceful (or rather pacifying) state.

Thus, having finished the text of all three volumes of *Capital*, Marx should be ready to depict precisely the bourgeois state, while it is just as clear that the next task would be to analyse the core of the action of that state against other states, or in other words, to show that no national total capital is left in solitude in its firmament. For even if not all nations have a capitalist character, its exemplars of capitalist firms forms a totality that is mediated by its currency. In this way, it is shown that capital indirectly returns into itself in foreign trade, after once being itself conceived through investments of surplus profits from overseas *trade*. But in the form it is here described, it is still simply *foreign trade*, an activity considered as a mass of simple exchanges of use values between a relatively small number of nations. And one should note that the joints inside this small cluster of nations have a common background which is not to be found in other nations or areas, namely the feudal economy. Still, this background should be taken in a comparatively wide meaning: We have to do partly with the 'deep' feudalism generated in Western Europe in the Carolingean era, partly with nations strongly influenced by a feudal *superstructure* (Norway, Switzerland) and nations grown out of colonial status (in Northern America and Oceania), imposed by feudal nations. The generation of the *world market*, on the other hand, takes place through integration of areas dominated by the Asiatic mode of production.

[1076]Marx 1976b, p. 180, amended; Marx 1968a, p. 101. [Sandemose gives besides the English also the German edition (see his list of references).]

[1077]In the *Communist Manifesto*, Marx contends that '[t]he executive of the modern State is but a committee for managing the common affairs of the whole bourgeoisie' (Marx 1976a, p. 486). But literally, this should be taken to refer only to the physical power of the state, not to the state in general....

It becomes clear that while on the national stage there is an identity between money and commodity circulation, nothing of the kind is possible as long as the existence of nation states prevails, combined with the intensity differences. A falling back to the original form means reversing to the level of monetary commodity *exchange*. Concerning the distribution, that is the 'circulation' on the world market, Marx writes in his 'Weltgeld' in *Zur Kritik*: 'Gold and silver in the sphere of international commodity circulation appear not as means of circulation but as *general (allgemeine) means of exchange*. The general means of exchange acts however merely as *means of purchase* and *means of payment* [...]'.[1078] Marx then gives some comments that seem adequately to describe the development of 'foreign trade' up to our days:

> Just as in theory gold and silver as money are general commodities, so world money is the appropriate form of existence of the universal commodity. In the same proportion as all commodities are exchanged for gold and silver these become the transmuted form of all commodities and hence versatile (*allseitig*) exchangeable commodities. They are realised as embodiments of general (*allgemeinen*) labour-time in the degree that the interchange of the products of concrete labour becomes world-wide. *They become general equivalents in proportion to the development of the series of particular equivalents which constitute their spheres of exchange.* Because the exchange-value of commodities is universally developed in international circulation, it appears transformed into gold and silver as international money. Since as a result of their versatile industry and all-embracing commerce the nations of commodity-owners have turned gold into adequate money, they regard industry and commerce merely as means enabling them to withdraw money in the form of gold and silver from the world market.
>
> *Gold and silver as international money are therefore both the products of the general (allgemeinen) circulation of commodities and the means to expand its scope*. Just as the alchemists, who wanted to make gold, were not aware of the rise of chemistry, so commodity-owners, chasing after a magical form of the commodity, are not aware of the sources of world industry (*Weltindustrie*) and world trade (*Welthandel*) that are coming into being. Gold and silver help to create the world market by *anticipating its existence in their concept of money*. Their magical effect is by no means confined to the infancy of bourgeois society, but is the inevitable

[1078] Marx 1972, p. 125.

> consequence of the *inverted way in which their own social labour appears* to the representatives (*Träger*) of the world of commodities; a proof of this being the remarkable influence which the discovery of gold in various new areas exerted on international trade in the middle of the nineteenth century.[1079]

A term like *Weltindustrie* might be taken as a hint at Marx's sometimes clearly over-optimistic view of the potentiality of capitalist forms to spread over the globe. An example of such an exaggerated perspective is the prediction of a rise of a general Indian mechanical industry as a consequence of the building of railways under the British *Raj*.[1080] Also, a well-known example showing his lack of clarity is to be found in his attempts to discuss a theory that could build on the Russian *mir* as a foundation of socialism. His diverse ways of approaching the problem, finally abstaining from any material answer at all, can scarcely be interpreted in any other way.[1081] Still, when it comes to his remarks on the theme in *Zur Kritik*, *Theories of Surplus-Value* and *Capital*, there is no reason to think that Marx envisaged a more speedy capitalist development than the one we have in fact seen up to the twenty-first century. The term *industrie* may therefore well be taken in its general meaning of diligent, assiduous or 'industrious' labour activity. Even when he writes about a disappearance of national borders on the world market, he may be taken to speak figuratively.

Here, the methodological point becomes acute in the fact that inside his magnum opus, it is in the process of capital *circulation* (that is in *Capital* Volume II) that Marx is led to introduce the problematics of the world market:

[1079]Marx 1972, pp. 127–8, italics added.

[1080] 'Modern industry, resulting from the railway system, will dissolve the hereditary divisions of labor, upon which rest the Indian castes, those decisive impediments to Indian progress and Indian power' (Marx's August 1853 piece 'The Future Results of British Rule in India'). However, the often repeated contention that even the *Communist Manifesto* contains such a prediction, is actually incorrect. Just like in the following excerpt, Marx does not contend that new industries are necessarily becoming bourgeois:

'The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. To the great chagrin of Reactionists, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations' (Marx 1976a, p. 488).

[1081]Prolegomena to letters to Zasulich. [See Sandemose 2011 for elaboration.]

> Within its process of circulation, in which industrial capital functions either as money or as commodities, the circuit of industrial capital, whether as money-capital or as commodity-capital, crosses the commodity circulation of the most diverse modes of social production, so far as they produce commodities. No matter whether commodities are the output of production based on slavery, [*or*] of peasants (Chinese, Indian ryots), [or] of communes (Dutch East Indies), of state enterprise (such as existed in former epochs of Russian history on the basis of serfdom) or of half-savage hunting tribes, and so on.[1082]

And Marx adds, immediately:

> Thus the circulation process of industrial capital is characterized by the many-sided character of its origins, and the existence of the market as a world market. What holds for foreign commodities holds also for foreign money; as commodity capital functions in relation to money simply as commodity, so this money functions towards commodity capital simply as money; the money functions here as world money.[1083]

It is, of course, not the sum of indigenous labour (in its money form) alone, but labour as (*sit venia verbo* [pardon the term]) *world labour*, that enters into the invested sum of capital whose metamorphoses are the object of the study in the second volume of *Capital*. As such a truly homogenous and universal labour, it then *appears* as sequestrated by the indigenous private owner of the invested capital. What Marx is then doing, is to accept the real power of this integration of values, commodities, labours and monies, giving them the adequate national currency name. And this is the correct way of handling them, for they take part in a production that is organised on a national basis subsumed under the laws of a specific mode of production. Hence Marx's strong inclination to illustrate the functions of the *Geld als Weltgeld* with the differences and interactions between modes of production, and, consequently, between social formations.

In the third volume of *Capital*, Marx seems eager to interpret the world market, in a strict sense, as a product of the commercial expansion of post-feudal states, that is nations that all have a background in the feudal social formation, like UK, Holland and France; at the time when these states had established themselves, and also established their internal rank order

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[1082]Marx 1978, p. 189. Italics inside brackets added. [In German, Marx 1968c.]
[1083]Marx 1978, p. 190.

as commercial nations through wars and foreign trade rivalry, their expansion had to go towards the Orient, that is the non-feudal territories of 'Asiatic despotism'. In positing the *Weltmarkt*, the general result of the foregoing period of foreign trade, he delivers an intense analysis of the relation of the Western powers and the Eastern giants of India, China and Russia, and the relative strength of the Asiatic mode of production inside each of these empires.[1084] (And consequently of the relative force of the relations that imply a strengthening of the Asiatic social formation.)
Now consider the following reflection from *Theorien über den Mehrwert*:

> [...] the whole form of society of backward nations [*Nationen*] – for example the slaveholding states in the North-American States [...] or in Poland and so on [...] is determined through [word missing] connection [*im Zusammenhang*] with a world market based on capitalist production. Whatever the size of the surplus produce which they suck out of their slaves in simple [*einfacher*] form as cotton or corn, they can stand still [*stehenbleiben*] by this simple [*einfachen*] unvariated labour, since by force of foreign trade they are capable of giving this simple [*einfachen*] product any form of use value whatsoever.[1085]

A little later, Marx makes clear:

> But it is only the foreign trade, the development of the market to world market, which develops money to world money and the *abstract labour* to social labour. The abstract wealth, value, money – hence the *abstract labour* is developed to the extent that concrete labour is developed to a totality of different modes of labour [*Arbeitsweisen*] encompassing the world market. Capitalist production is based on *value* or the development of the labour contained in the product as a social one. But this happens only on the basis of foreign trade and the world market.[1086]

In fact, these reflections, taken together, amount to a *tour de force* concerning the status of abstract labour, value-producing activity, on the whole. In the abovementioned study of the commodity in the *Zur Kritik*, Marx stresses that

[1084]Marx 1968b, p. 346.
[1085]Marx 1968e, p. 239, author's translation.
[1086]Marx 1968e, p. 250, author's translation.

> … [the] abstraction of the universal human labour exists in the average labour [*Durchschnittsarbeit*] that every average individual in a given society is able to perform, a determinate outlet of human muscles, nerves, brain, and so on. It is *simple* labour, to which every average individual can be trained and that it has to perform in one form or other. The character of this average labour is different in different countries and different cultural epochs, but appears as given in a given society.[1087]

These relations offer an interesting perspective as regards the importance of the Asiatic social formation for the rise of the bourgeois mode of production. This is because of the dimensions of the staple food in the main Asian society, the facility with which one can establish the quantitative rate of exploitation of the status-labouring peasant, and the homogeneous possibility of measuring the political power, which so often is expressed in forced labour employed in storing of the prestigious means of social power (corn staples and so on). The simple labour in these societies is therefore their ruling form of sociality. But that means that they are also, ever since at least the Napoleonic age, at the brink of the capitalist world market, where their products easily can be calculated as value, that is count as abstract labour, because this latter is dependent of having the former 'inside' itself (compare '*exists in*').

On the other hand, the interest from the side of world market *customers*, or from the *demand* side, for such staple goods are of course ensured by the need for cheaper foodstuffs for Western workers (thus tendentially widening the rate of exploitation), and members of the utilitarian pauperism systems ('welfare'). Furthermore, as regards especial 'luxury' goods for Western upper classes, porcelain ('China') played a formidable role, not least in forcing China through the Opium Wars to let its silver bullion loose on the world market.

Producing silk or porcelain does not invite simple labour, a fact which helps to remind us of the existence of both simple and complicated labour in non-bourgeois formations. In 'Asiatic' formations of today, the phenomenon retains, however, a peculiar character. In the 'pioneering' form of Japanese industrial capitalism, the (metallic) products of the core part of 'Sector I'[1088] (commodities mostly destined for the world market) had a primitive and deficient character. In fact, they could, with an ironic twist, be said to be products of the 'simple labour' known from the Asiatic Sector II quite in general. As such, they were typical

[1087]Marx 1972, p. 18, author's translation.

[1088]For the terms of the 'sectors' I and II, developed in Marx' schemes of reproduction, see the article of Dokukin [translated in our volume].

of the poorer quality that is still to be found in Asiatic manufacturing, even in Indian, Korean and Chinese workshops.

Precisely in Japanese industry things are fairly different today, partly because of the feudal character of the old landownership, which gave the peasant household greater latitude for independent economic activity (just as in medieval Europe), which helped the growth of the home market. The semi-feudal background has formed Japanese economy to virtually the only one in Asia with a reliable product structure in capitalist industry. However, Japanese capitalism has retained the feudal structure of ownership, which has led to cartelisation barring competition between branches, while upholding an *agonia*-like struggle between competitors inside branches.

The so-called 'shareholding companies' in Japan are steered not by individualistic, Western-like majorities, but by mafiotic interest groups who manipulate 'shareholders' via precapitalist, vitriolic pressures. The most powerful ones are the *zaibatsu* ('money cliques'), renamed *keiretsu* ('orders of succession') and politically whitewashed by the Douglas MacArthur US military administration after WW II. Their blocking of interspherical competition follows as a matter of course from the fact that since they insist on owning industries in as many branches as possible, such a competition would imply that each and every capitalist competed against himself. This weakening of a potential profit motive has led Japan into what Westerners take to be an economic crisis, a downfall starting in 1990, temporally accompanying the collapse of the Soviet Union (which undeservedly got so much more attention in 'mainstream media').

While the form of cartel-like ownership is universal in all Asiatic (that is to say Asian, Latin American, African) industry, it is alone in the Japanese version (and apparently in the Israeli) that a decent product quality has been accomplished up to now. With such sole exceptions, the combination of that form with a product-deficient type of undisciplined labour process is ubiquitous. It was this factor that led to the collapse of the Soviet Union, lengthily postponed by the presence of US engeneering in the 1920s and 1930s, and of the conquered German industrial base after WW II.

Especially the Russian experience is, partly at any rate, characteristic. Marx held the Russian empire to be an outstanding example of pre-capitalist developments of systems involving simple labour. Historically we know this from the uniformity of serf labour; its dominance in agriculture in one season, and in fisheries, hunting and artel-work in another – with an extreme consciousness of equality of distribution among workers. As a compensation for poor product quality, however, this was an obsolete sentiment.

Our theme, the unity of world market and the rise of Western capitalism, brings us directly into key concepts in Marx' classical treatise on method in the *Grundrisse*.[1089] Here he explicates how 'labour seems a quite simple category', while it still requires ages to appear empirically as such:

> On the other side, this abstraction of labour as such is not merely the mental [*geistige*] product of a concrete totality of labours. Indifference towards specific labours corresponds to a form of society in which individuals can with ease transfer from one labour to another, and where the specific kind is a matter of chance for them, hence of indifference. Not only the category, labour, but labour in reality [*Wirklichkeit*] has here become the means of creating wealth in general, and has ceased to be organically linked with particular individuals in any specific form. Such a state of affairs is as its most developed in the modern form of existence of bourgeois society – in the United States. Here, then, for the first time, the point of departure of modern economics, namely the abstraction of the category 'labour', labour as such', labour pure and simple, becomes true in practice [*erst praktisch wahr*]. The simplest abstraction, then, which modern economics places ahead of its discussions, and which expresses an immeasurably ancient relation valid in all forms of society, nevertheless achieves practical truth as an abstraction only as a category of the most modern society. One could say that this indifference towards particular kinds of labour, which is a historic product in the United States, appears e.g. among the Russians as a spontaneous inclination. But there is a devil of a difference [*verteufelter Unterschied*] between barbarians who are fit by nature to be used for everything, and civilised people who apply themselves to everything. And then in practice the Russian indifference to the specific character of labour corresponds to being embedded by tradition within a very specific kind of labour, from which only external influences can jar them loose.

These reflections form the basics of Marx's mature 'world view' in an eminent meaning. They simply describe the present and historical world as a whole, and as we have already said, there is nothing that indicates that Marx changed his view up to his death. The only change in detail is that he decided not to start his project with a general introduction of abstract, social determinations.

It is worth summing up his plan, as it terminates this section in the *Grundrisse*:

[1089]Marx 1993, pp. 100–8; Marx 1953, pp. 21–9.

> The order obviously has to be (1) the general, abstract determinants which obtain in more or less all forms in society, but in the above-explained sense. (2) The categories which make up the inner structure of bourgeois society and on which the fundamental classes rest. Capital, wage labour, landed property. Their interrelation. Town and country. The three great social classes. Exchange between them. Circulation. Credit system (private). (3) Concentration of bourgeois society in the form of the state. Viewed in relation to itself. The 'unproductive' classes. Taxes. State debt. Public credit. The population. The colonies. Emigration. (4) The international relation of production. International division of labour. International exchange. Export and import. Rate of exchange. (5) The world market and crises.[1090]

As one can see, the world market, as the concluding issue, is the theme whose analysis is apt to sum up the totality of the object.
In a 'miscellanous' investigation into some Ricardian themes in the second book of *Theories of Surplus Value*, Marx offers some thoughts on the role of foreign trade in relation to the period of 'manufactory':

> In the second half of the eighteenth century wages [were] continually falling, population astonishingly rising – and machinery. But it was precisely machinery which on the one side made the existing population supernumerary and thus made the wage sink, while on the other hand, because of the rapid development of the world market, absorbed it again, made it redundant once again, while it ... extraordinarily accelerated capital accumulation, and increased the *mass* of variable capital, ... But in the first half of the eighteenth century, contrariwise [it had been] not largescale industry, but *manufacture based on division of labour*. The main part of capital was still the variable, invested in wages.[1091]

This development reflects what Marx calls 'the victory' of industrial capital over merchant capital in gaining the leading role on the world market. And this is also the point in history where what is often called 'uneven development' between nations enters into the picture. It is the productive power of localised large-scale industry, combined with the disciplined

[1090]Marx 1993, p. 108.
[1091]Marx 1968d, p. 586.

labour power of the Western world, which, directed by the voracious capitalist lust for surplus labour, starts this development.

This kind of capitalist power is, as pointed out, localised. It is confined to nations in the Northwestern world, plus some Pacific one-time colonies. In these (bourgeois) nations, free competition, private property, communication systems, and so on are factors built up in solid and durable way. This means that they are characterised by the existence of an average rate of profit between branches, in spite of the wide technical and social differences between them. This rate leads to commodity values being changed into 'prices of production'; thus value magnitudes are being transferred from branches with relatively much of 'the variable [capital], invested in wages' to branches with relatively more of constant capital.

This kind of profit-rate equality is, as hinted at already, impossible in more primitive systems of capitalist organisation, where less developed forms of private property are in the saddle. That is the main reason why it is anachronistic to talk about an 'average rate of profit' on the world market. Rather, commodity owners all over this market are simply selling ad libitum after adjusting prices according to relevant tactics and constellations of supply and demand. Of course, different international *values*, specific outlets of national labour, are always the core form of their market prices.

In Marx, the dynamics of the world market is depicted by examples from foreign trade, and the latter's reaction on different national intensities of labour. His main theme here is the effects on the domestic profit rate:

> In so far as the labour of the more advanced country is here realised as labour of a higher specific weight, the rate of profit rises, because labour which has not been paid as being of a higher quality is sold as such. The same may obtain in relation to the country, to which commodities are exported and to that from which commodities are imported; namely, the latter may offer more materialised labour *in kind* than it receives, and yet thereby receive commodities cheaper than it could produce them. Just as a manufacturer who employs a new invention before it becomes generally used, undersells his competitors and yet sells his commodity above its individual value, that is, realises as surplus labour the specificly higher force of production of the labour he employs.[1092]

[1092]Marx 1968b, p. 248.

In the case observed here, '[...t]he favoured country recovers more labour in exchange for less labour, although this difference, this excess [*dies Mehr*], is pocketed (as in any exchange between labour and capital) by a certain class'.[1093]

But there exists a wide range of possibilities, amongst them even some which may lead to outright loss of labour time from one nation to another. This range will be commented upon below and in other texts in this book. What is most important in the present article is to show, as Marx adds, that the illusion (held by Ricardo and others) that leads us to ignore the movements of *labour* quanta, 'will disappear as soon as their money form is taken away'.[1094] That is, as soon as analysis of value *forms* are in place, the universal function of *labour*, all over the world market as well as inside its consolidated subjects (nations), will present itself. To interpret each and every national capital as integrated in the world market is, however, not the same as subsuming them under a concept like 'global total social capital', as some authors, as for example Carrera, Charnock and Starosta, belonging to an 'international' camp of Marx-interpretation in fact do. They take 'national total social capitals [to] behave as aliquot parts of the global [sic!] total social capital'.[1095] But how such a mediation could ever be generated, is all too mysterious. The world market consists to some degree of monies and commodities from non-capitalist sources, and furthermore, as we have seen, of products from capitalist sources that are to a great extent related only to capitals working through formal subsumption of workers, that is with means from the 'manufactory' period in Europe (ca. 1500-1750). Also, one should note that the representatives of this 'school', as for example Carchedi, are unaware of basic points of Marx's theory of value, and accept the Bortkiewicz/Sweezy version of total price sums inside national capitals.[1096] Under such circumstances, the theoretician will not be able consistently to construct a subject (a social capital) which is independent in its activity, which among other things means 1) that the total amount of labour is demonstrably the same as well as when all commodity-values are summarised, as when all their production prices is summarised; and 2) that the sum of all values of the products (the commodities) making up the physical net product is the same as the sum of all corresponding production prices.

But not only is the existence of a transformation of all values into prices of production a necessity for a capital 'subject'. The fact is also that such a transformation gives meaning only inside a nation, where average conditions between workers and capitals can meaningfully

[1093]Ibid.
[1094]Ibid.
[1095]Charnock and Starosta 2016, passim.
[1096]See Sandemose 2010b.

exist. The transformation takes place only through a levelling-out of economic conditions between branches. Since this is precisely a *competition* between branches, a battle for credit, infrastructural positions, average access to labour power, power sources, land domains, and so on, it cannot take place as such in a cartelised economy. Consequently, any theory that posits a global capital as an actual historical subject in the present day, is bound to break together.[1097]

[1097] In Cagliaris we read, concerning specific Marxian texts: '...it is certainly possible to find in those texts the 'repeated' observation about the need to explain national class struggle through the role the corresponding national sphere occupies in the world market. For example, in *The Class Struggle in France*, when discussing approaches that abstract from the global determination of national class struggles, Marx argues: "But French relations of production are conditioned (*bedingt*) by the foreign trade of France, by her position on the world market and the laws thereof" [...]. From this point of view, class struggles and corresponding state policies are, therefore [sic!], the concrete forms that mediate the unity of the movement of the total social capital' (Cagliaris 2016, p. 58). There is absolutely no such conclusion to be drawn here. The author is simply presenting a misunderstood *modus tollens*.
In another piece of work belonging to the same line of thought, Starosta presents the same immature lack of logic: 'the territorial or spatial dimension of GVC [Global Value Chains] – and so the changing forms of the worldwide division of labour – therefore cannot be seen as determined by the locational strategies of lead firms faced with given qualitative national and regional differences, in turn seen as established by allegedly autonomous state policies. Instead, it needs to be grasped as an expression of the underlying formal and material unity of the essentially global contradictory dynamics accumulation of the total social capital, which are economically mediated by relations of competition among individual capitals (again, as opposed to determined), on the one hand, and politically mediated by the policies of the nation-state on the other (Clarke 2001). As Burnham (1994) states against traditional Marxist theories of the global political economy, the immanent content of these global dynamics is not one of imperialism or dependency, that is, a direct political relation between states, another mediating form), but those of the production of (relative) surplus–value on a world scale (Howe 1981). In other words, the spatial dimension of GVC must be searched in the changing forms of the exploitation of the global working class by the total social capital through the transformation of the material forms of the capitalist production process' (Starosta 2010, p. 556).
It is quite right that the 'global dynamics' we are witnessing today, 'is not one of imperialism or dependency', and that instead, 'it needs to be grasped as an expression of ..[an]... underlying formal and material unity'. Such a reflection is precisely to the point, but to negate 'imperialism or dependency' is by no means the same as opting for a unity 'of the production of (relative) surplus–value on a world scale'. The only sensible unity here is *simple labour*, capable of being catched and widened to abstract, that is, *value-creating labour* in some compulsory labour process. As we have seen already, this is the real ground for the world market, a ground that, all in accordance with the differing historical backgrounds of nations, is being organised in different ways of production. The weakness of the interpretation referred by Starosta can easily be seen in his contending that the unity is posited as '*relative*' surplus value, a thesis that seems groundless on his own premises, and which is made incredulous by the fact that masses of capitalist surplus value produced today evidently is exclusively dependent on formal subsumption under capital and modes of producing absolute surplus value.
This latter fact, in its turn, weakens the form of the Starostian premises for analysis of the state. It seems a matter of pure formalism to imply that for example the Chinese *state* is not an active factor in the global economic game, as long as the *hukou* system, without which neither political nor economic system in that country can be understood, is dominant. Similar viewpoints should be adapted for India (*jati*), Japan (*keiretsu*), and so on.
Such states do not create economic magnitudes in force of their political interrelation. That is correct enough. But there is an interaction between politics and economy. The universal form of cartelization of capital ownership and management outside the 'Northwestern' capitalism breaks with the profit motive, or lets this latter appear as a mere means to prestige-loaded, rather 'Asiatic' economies. In Africa, Latin America and Asia, the system of 'Business Groups' (that is simply: cartels) blocks the growth of the only factors that rise up to individualize capital in general: Real monocentred production, be it through local small-owners or by FDI managing to outcompete their cartelized competitors.

2. Concept of labour as ontological groundwork

Karl Marx's dictum: 'All economy dissolves itself into economy of time', was formulated in his work on the *Grundrisse* (1857–8), a text that in many ways bears witness of his closeness to the philosophy of G.W.F. Hegel. This propinquity was there ever since certain Marxian writings of 1843–4, but was originally loaded with important misunderstandings – particularly the one that Hegel did not accept physical labour as an ontological category.[1098] Marx's work with the construction plan for *Capital* (I-III) did include not only the *Grundrisse*, but also the so-called *Theorien über den Mehrwer*t (1861–3). All taken together, these manuscripts made up his main theoretical effort through the years from 1857 to 1863. The Hegelian influence is just as strong in both of those self-enlightening texts.
Already at an early point in the *Grundrisse*, robust allusions point to Hegel's theory of Lordship and Bondage and the connoted understanding of physical labour as the creator of conceptual thought. Gradually, it paves the way for a Marxian version of theory of cognition. Just as in Hegel's *Phenomenology of Spirit*, the dialectical structure of labour is highlighted:

> This consumption is not simply a consumption of the material, but rather consumption of consumption (*Verzehren des Verzehrens*) itself; in the suspension of the material (*im Aufheben des Stofflichen*) it is the suspension of this suspension and hence the *positing* of the same. This *form-giving* activity consumes (*verzehrt*) the object and consumes itself, but it consumes the given form of the object only in order to posit it in a new objective form, and it consumes itself only in a subjective form as activity. It consumes the objective character of the object – the indifference towards the form – and the subjective character of activity; forms the one, materialises the other. But as *product*, the result of the production process is *use value*.[1099]

The politico-economic interaction, leading also to imitation-economies and innovative action concentrated on products from Sector II (reducing the relative rise in overall economic productivity), are per definition always hindering progress and making leading roles in world economy inapproachable. When countries like these seemingly can take over positions as world technological leaders, it is a fata morgana in action, whose real background is simply a prolonged crisis of over-accumulation in Western, classical capitalism. A gradual, post-crisis restructuring (or a Western proletarian revolution) will demonstrate the general low-level quality of 'Business Group' economies.
Even more clearly than today, such a future will demonstrate the decisive importance of differences in intensity between national labours – not only between 'Asiatic' and Western forms, but inside both of these groupings. (The reader is referred to a continuation of this criticism below.)

[1098][Sandemose wrote an unpublished book manuscript on this theme, promising 'to develop a materialist dialectics that can count as a real *Aufheben* of key motivations of German Idealism' (quote from manuscript).]

[1099]Marx 1993, p. 301; Marx 1953, p. 208.

As for Hegel, his continued exposition in the *Phenomenology* leads to the concept of power and to the forms of space and time. In the quoted paragraphs from Marx, these concepts are just as clearly to be found in nuce. What is depicted, is the form of the negation of negation, or the double negative, or 'absolute negativity'. When working on materials, these are negated, and that movement is simultaneously negating the given constitution of the subject, material and mental. This latter negation includes the subject's new consciousness of its power in nature.

In order to anticipate some difficult terms in the analysis of Measure, it is worthwhile here to point out how Hegel, in the first volume of his logic (which ends with the analysis of *das Mass*) investigates this negativity from the conceptual side through the terms of 'finitude' and 'infinitude'. He contends that our persistent use of the thought of 'finite' things indicates and implies our sound belief in the being of an infinite. He finds that in our first negation of outer being, we are ipso facto declaring things to be merely finite, subsumed under our force to change the world; our discovery of a second negation, that is our ability to negate and determine our original negation and its psycho-material ambience, then implies that the finite truly leads to the infinite. Or rather, the latter necessarily contains the former. This 'good' or 'affirmative' infinite is, then, a consumption of a consumption. Since both Hegel and Marx agree with Spinoza's dictum that 'all that is determined is negated', it is for them also a negation of a negation and therefore presents itself even as a *Nichts*, a nothing, an entity differentiated from its constructing side, and as such a potent starting point for further development.

When Hegel develops this theme, *power*, through the categories of time and space, there is a connection between this relation and the fact that his working subject is subsumed under a lord and consequently feels his oppression like a necessity – as in the bound, inescapable sequence of temporal events. In Marx's note-book passages we do not find such a systematic transition. However, in a section concentrating on the forms of surplus value, the theme is presented as the production of 'living labour time':

> Labour is the living, form-giving fire; it is the transitoriness of things, their temporality, as their formation by living time. In the simple production process – leaving aside the valorisation process – the transitoriness of the forms of things used to posit their usefulness (*Brauchbarkeit*).[1100]

[1100]See Marx 1993, pp. 359, 361 (translation amended, since Nicolaus has 'realization process' for '*Verwertungsprozess*', which is odd); Marx 1953, pp. 264, 266.

The construction of things is, then, simply what should be called their temporality. Through the temporality inherent in themselves, producers are positing time, and this time has a material face. But to verify this structure, the working subject must be able to experience it as the formal presence and existence of that abstract movement-in-permanence which is what one calls 'time'. If not, there would exist no proof of how the material syntheses are actually temporal. That the working subject negates the material through a negation of itself must be shown to be a fact for every possible working act, not only for those already being experienced. That can only be done by proving that an identical (all-embracing) a priori formal structure is present in work acts.

This latter formalism is (when adapted) usually said to be grounded in the point. In Kant's theory of cognition, movement, as giving us the concept of time, is presented as a voyage of a point in space – which forms a line.[1101] In Hegel, for whom time is a form of intuition only when understood as generated by negations, this priority of the point is present as the double negation: A negation is a movement, and if it is negated, it will take part in something that stands forward as a line. Consequently, the double negation is the point, in the figuration of producing or halting a line, be it straight or curved. This is the *Now*, and it is generating itself continuously, since any negation starts up (sets in motion) a negation of itself.

The Now, and further on the category of the *present*, is a general abstraction from the differences characteristic of each and every material negation. As such, it shows itself to form a unity with the abstraction 'Here', which means it is just as much a generator of our intuition of Space, the open field of action, but depicted as an *abstract* field (i.e. simple three-dimensionality), since it includes the possibility of different points of reference for any action inside the Now.

These abstractnesses – the Now as such, its self-generation of succession and its projecting of a future and a past, added to the construction of endlessness of Space and of Time itself – of course have their germs independent of human labour; but those germs consist of physical potentialities of some action or other, of which conscious, labour-like derivatives are the highest developed. They all are initially present as potentialities, that isas forces, and they may be said to represent the totality of human labour power. This latter is in itself a totality, which in the course of history risks being treated as a commodity, that is an entity with an exchange value. Like actual commodities in general, it is a material entity, and it includes the

[1101]Please combine Kant 1996, B 137 and B 208 [We think this is a working-note by Sandemose.].

potency to think and make abstractions, reflecting the material construction of its 'world', and being part of that self-same activity.

Let us now turn more concretely to the living space of these negations in the present capitalist society.

When a singular labour power is actually turned into a commodity, it can be bought by capital. Since it can be set to work, it can also fulfil its task of creating surplus value for the capitalist. This appears as the quantitative side of its process. However, the qualitative side, the perfectioning of the immediate use value of the product, goes on simultaneously. This qualitative working act of the labour power is not paid by capital:

> Within the production process, the separation of labour from its objective moments of existence – instruments and material – is suspended (*aufgehoben*), for otherwise work could not go on at all. The existence of capital and of wage labour rests on this separation (*Trennung*). Capital does not pay for the suspension of this separation which proceeds in the real production process.[1102]

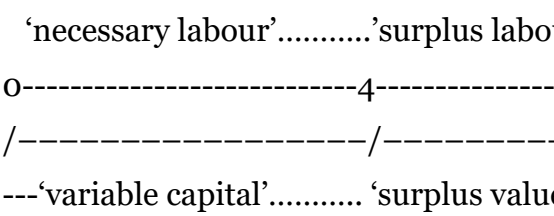
As any reader of Marx will know, the most important resultant of this 'suspension' is that the use value of the means of production is being maintained, perfected and transferred to a finished, '*neutral* product', as Marx often calls it, reminding us of his interest for the study of chemical processes. This is because the concrete labour incarnates a 'natural property of his [the worker's] labouring capacity'.[1103] When it produces use values, in any possible social formation, it maintains the *use value of the means* of labour. Consequently, Marx can well employ words relating to chemical science ('neutrality', and so on) in such a connection. As for capitalist production, he discusses this development as a relation between quantity and quality, the former being expressed through valorisation, and quality (on the other hand) through concrete labour. As we saw, this maintenance is not paid by capital; it gets it gratis. This qualitative aspect of labour is not seen at all in bourgeois political economy. That goes (of course) even for the neo-Ricardian versions of it, whose representatives frequently call themselves 'Marxists'.

Let us briefly consider this point. The value of any capitalistically produced commodity can be seen as consisting of three parts, namely, as $c+v+s$, that is parts of constant capital, of variable capital, and of surplus value. Let us for simplicity's sake suppose that the

[1102]Marx 1993, p. 364 amended; Marx 1953, p. 269.
[1103]Ibid.

commodity in question is produced in the course of one working day of 8 hours; let us furthermore suppose that the rate of surplus value, that is the rate of exploitation, is 100 per cent, and that the product is sold at its value. Let us say that its price is = 12 hour-units. In that case, we know that the net product is sold at 8 units, and that *c*, which stands for the cost of raw materials and wear on machinery, is 4. On these presuppositions, let us also suppose that the worker(s) get(s) 4 units after the sale of the product, and that the capitalist(s) get(s) his or their 4 units as 'remuneration'.

In the example used here the basic relation can be described by a straight line, for convenience starting with one symbolising a working day of eight hours:



But what about the 4 *c*-units, which, we must presuppose here, appears as the price of the material commodity which exceeds the net product? In any non-Marxian economy, the explanations are cast aside and replaced by some thesis to the effect that the capitalist has a 'right' to be compensated for his outlay in his means of production. Nonsense of this kind (implying that some bourgeois sort of 'human rights' should explain hard facts) arise because the value creation in course of the working day corresponds to a lower value than that of the total product. Marx's concept of labour puts this right, 1) since he (as already shown) adopted a realistic analysis of the function of the concrete labour, and 2) underlined that commodity-producing labour has a *double* character namely a. as *concrete* labour, and b. as *abstract* labour. The latter defines labour only as a process which has a duration in time. The former consists of natural forces for which capital will dispose of.

Marx also points out how capitalist cooperation in itself brings with it a still another 'gratis effect'. This is shown mainly in his chapter 'Cooperation'.[1104] The point is here that on the market, with its liberality and formal freedom, each worker sells his labour power on his own behalf. But when workers are assembled to a working aggregate inside the factory, their synergic effect in production by exceeds the mass and sum of use values each one could produce on its own. This is a fundamental factor in the class struggle between worker and capitalist, and throws an especial light on the confrontations over the length of the normal

[1104] See Marx 1976b, Chapter 13, pp. 439–54; Marx 1968a, Chapter 11, pp. 341–55.

working day, and therefore on the rate of surplus value, which in this article is called a 'fundamental ratio'.

3. Intensification of labour.

It goes without saying that Marx's investigation in *Capital* is meant to cover in principle the economy of one national territory – 'a country'. This follows from an early remark in his first chapter, to the effect that the value of a commodity is measured through extensive time, but only on a basis of a country-specific intensity.

In this introduction,[1105] we have so to speak an obligation to expose those innermost relations inside human labour in detail, since the chief reasons for the developmental structure between nations, as observed on the world market, depend on differences they allow for in domestic economies.

From our textual analysis up to now, the most ample way to fulfil such a task is to continue with themes that are closely related to the qualitative side of the labour process, as it functions 'inside capital', so to speak.

As mentioned, these are relations connected to quantity and quality of one and the same labour. In Marx's 'economic' dialectics it occurs that these categories reach points of inversion (so-called *nodal points*). That is, a quantitative relation is inverted into a qualitative one, or conversely. Such an event is to be found in the case of intensification of labour.[1106]

The perhaps most prominent example is reported in Marx's discussion of the consequences of introduction of machinery, in the chapter 'Machinery and Large-Scale Industry' of the first volume of *Capital*. There, he starts his investigation of the position of the British workers after the introduction of shortened working days in the UK (after 1847) with the sentence: 'We have now to consider the inversion (*Umschlag*) of extensive magnitude into intensive magnitude, or magnitude of degree'.[1107] It is immediately clear that he has in mind magnitudes of labour, and that the problem to be discussed is one of their *measure*.

[1105][Sandemose's text was originally meant as introductory essay, but we changed it into the concluding chapter. It can count as an independent work.]

[1106]In theory, a process of 'rarefaction' of labour is also possible, but under capitalist conditions mostly absent. It may occur, however, when a country has been competed out of markets by richer countries through the latters' higher productivity and intensity.

[1107]Marx 1976b, p. 533; Marx 1968a, p. 431.

Since we have already implicitly presupposed that Marx holds that the measure of magnitude of labour is its 'time duration' (*Zeitdauer*),[1108] an inversion from quantity into some quality is the most convenient object here; the reappearance of the magnitude measure as one dependent on degrees, must – at the very least – be mediated qualitatively, that is a substrate must have been causally affected, before it can function as a measure. The whole structure is consistent with the very definition of a measure, as a quantitative reflection of a quality – consistent with the Hegelian triad defining the immediate being of a 'Something' (*Etwas*).

This last is reflected in Hegel's division of our world of immediacy (depicted in the Logic of Being, that is the first volume of his *Science of Logic*, into Quality, Quantity and Measure). A philosophically most interesting feature, is that Hegel dispenses with the Kantian way of rounding off the triad, which implied introducing the concept of *modality*. Instead, Hegel, with a materialistic vein, insists that the measuring activity follows logically on the two foregoing – a viewpoint following rationally on his giving priority to quality before quantity.

As for Marx, intensification is simply understood as a rise in 'rapidity' of work. In the case mentioned above, it was effectuated from about 1850, through massive introduction of machinery in a capitalist economy which had until then been dominated by 'manufactory' (its expression in English vernacular in earlier times),that isworkplace organisation based on craftmanship technology.

Usually, mechanisation and machinery involve increase in *productivity* of work. Let us say that the concrete example we brought above (in Section I) is based on a given type of work operation, and also on the prevailing intensity in the pressure on the workers' physical-structural condition.

Let us further presuppose that there is introduced machinery that leads to a significant augmentation of that degree of labour productivity, implying that a given amount of labour, performed through for example 8 daily hours, may now produce 100 per cent more commodity units than before, say, for example, changing an output of 100 units to one of 200 units. Ideally, we can suppose that the value of each unit may be halved. This corresponds to a doubling of productivity, since the duration of the labour process is still 8 hrs., while labour intensity is not changed. (For convenience, suppose that the newly adapted machinery, while its efficiency is higher, is not solid enough to endure a heavier pressure.) Or, said in another way, the quantity of labour expressed in commodities has remained the same.

[1108]Marx 1966 [1867], p. 218.

Now, historically, Western capital accumulation has shown itself to be what is called boundless or measureless, driven by a profit motive.[1109] The drive for continuous augmentation of his capital is the chief interest for any capitalist. Exigiencies laid down in the structure of physical reproduction and competition inside an economic system based on private ownership, lead capitalists to increase the physical mass of their commodities beyond existing barriers.

An important barrier in this respect is the average intensity in the labour of any given nation. In the same way that Marx underlines that the composition of the national bundle of wage goods has got a historical and moral element,[1110] so he contends that a certain national degree of intensity forms part of the concept of social average necessary *extensive* working *time*.[1111]

Such a level of intensity was presupposed in constructing the number-example mentioned above. However, intensity, or real degrees, is not directly measurable in extensive time. It can be expressed in extensive media, as temperature in a column of quicksilver, but only through a movement which is causally dependent on the pressure in the column, generated by a quicksilver mass 1 mm. high. Through this pressure, the quicksilver extends or contracts in terms of a certain rule, on a scale in space. In this way, it is conceived as a plurality of degrees, but is in reality, as Immanuel Kant put it, '... a magnitude that is apprehended only as unity (Einheit), and in which multiplicity can be presented only by approaching toward negation = 0'.[1112]

And actually, Kant's view was that the transition from the category of quantity to the category of quality, in the empirical case goes precisely through the rise of *intensity* of magnitude, passing over from extensive quantity.

Such a transition once more indicates the centrality of the *point*, taken as an ever-diminishing entity and therefore actualising precisely what is *boundless* or *masslos*, an adjective that points to the urgent necessity of defining the measure. For what could be more apt to show us the structure of measure, than that which is indifferent to it? For when a measure is to be used, it is vital that it does not disturb the measured Something.

In the capitalist system, the dominating tendency is a 'voracious appetite for surplus labour' or '*Heißhunger nach Mehrarbeit*', as Marx pointedly says.[1113] Its feeling for the boundless is itself boundless. It stands to reason, then, that capital must snatch every opportunity to swell

[1109]See Chapters 22 and 23 in Marx 1968a, and Sandemose 2018a, Chapters 1 and 2, for the inner dynamics in total national capitals.
[1110]Marx 1968a, p. 185.
[1111]See Marx 1968a, p. 53.
[1112]Kant 1996, p. 291 (B 210 and A 169).
[1113]See Marx 1976b, p. 344; Marx 1968a, p. 249.

up the mass of commodities to be produced in a certain time-span in its circuit. As mentioned above, such opportunities materialised to a high degree in Britain especially after 1847, through law-making hastened by proletarian revolts against the extreme prolongation of the working day in British industry. These latter manoeuvres, massively practiced since ca. 1780, amounted to what Marx calls 'production of absolute surplus value' – the capitalist endeavour to gain surplus labour through prolongation of the working day, or rather, prolongation of the unpaid part of the working day.
In the first volume of *Capital*, Marx presented this overview:

> Up to a certain point, the increased wear and tear of labour-power, inseparable from a lengthened working day, may be compensated by higher wages. But beyond this point the wear and tear increases in geometrical progression, and every condition suitable for the normal reproduction and functioning of labourpower is suppressed. The price of labour-power and the degree of its exploitation cease to be commensurable quantities.[1114]

The result followed according to Mertonian theory of latent functions: In spite of their resistance to the laws for protection of workers, capitalists had to change their means of labour into forms which enabled intensification of production. An obvious motive insofar was to gain additional surplus labour through 'production of relative surplus value', which means a shortening of the paid part of the working day.
Consequently, a gradual, but massive introduction of machinery enables the 'immediate producer' (the worker) to perform steadily more labour in the same time as before. As a development of the example given above, let us say that a total renewal of fixed capital includes machinery that makes it possible to go from the level of production of 200 units to 400 units a day. Since this might happen without any rise in productivity, the 400 units can be sold to a value equal to that of the 200 in the former situation. The corresponding lowering of prices per unit strengthens the capitalist in his struggle for market shares. However, such an example shows only one of many aspects of intensification, namely, a case of intraspherical competition, where the accurate change in value production following intensification is not fully utilised.

[1114]Marx 1976b, p. 664; Marx 1968a, p. 549.

As Marx clarified the matter, relating to cases where intensification tends to be universal in industrial branches, so that the full implication of intensification, which means rise in production of both values and use-values simultaneously:

> in England [...] the lengthening of the working day has gone hand in hand with the increase in the intensity of factory labour. ...[thus] the reader will clearly see that [...] with labour repeated day after day with unvarying uniformity [...] a nodal point (*ein Knotenpunkt*) must inevitably be reached where extension of the working day and intensification become mutually exclusive so that the lengthening of the working day and intensification of labour becomes compatible only with a lower degree of intensity, and inversely, a higher degree of intensity only with a shortening of the working day.[1115]

As an example, he relates:

> The denser hour of the 10-hour working day contains more labour, *that is expended labour-power*, than the more porous hour of the 12-hour working day. Thus the product of one of the 10 hours has as much value as the product of 1 1/5 of the 12 hours, or even more. Apart from the increased yield of relative surplus-value which results from the heightened productivity of labour, the same mass of value is now produced for the capitalist by, say, 3 1/3 hours of surplus labour and 6 2/3 of necessary labour, as was previously produced by 4 hours of surplus labour and 8 hours of necessary labour.[1116]

Also, it seems fair to quote the following clarification, on which Marx spends a footnote:

> There are, of course, always differences in intensity in the labour performed in different industries. But, as Adam Smith has shown, these differences are compensated to a partial extent by attendant circumstances peculiar to each sort of labour. Labour-time as a measure of value, however, is not affected in this case,

[1115]Marx 1976b, p. 533, amended ['a point must inevitably be reached...' – that translation dropped 'nodal'.]; Marx 1968a, p. 431.
[1116]Marx 1976b, p. 534, italics added; Marx 1968a, p. 433.

> except in so far as intensive and extensive magnitude are two antithetical and mutually exclusive expressions for one and the same quantity of labour.[1117]

Actually, what Marx postulates here, is that *any* expenditure of labour in extensive time has the character of wave motion, with ups and downs of intensity through the working period, but to a definite degree that does not overwhelm a social given average. Consequently, each value expression, of the coat as a reflection of the working day in tailoring, of the linen in weavery and so on, presents itself as a 'node' in its equivalent form. Therefore, Marx would have been fully justified in using that term for the specified measures forming the 'predicates' in his value forms.

An interesting point is that Marx explicitly tells us that as soon as a given quantity of labour is to be measured, then it can theoretically be the case that 'labour time', as a measure of value, is 'affected'. That must mean that another entity than what has up to then been called 'time' takes over as the measure.

'Labour time' is in this case an average length of time that is called 'socially necessary' for the production of a given item. There is also another meaning of the word, namely, the quantum of a given commodity that corresponds to the total social need for it.[1118] This is simply a practical modification of the term, compatible with the tendency to over-production in the mature capitalist system, where the 'voracious appetite for surplus labour' leads to over-eager size of production. It is not worth to analyse this further here, for our case is related only to changes in labour intensity, so the 'affection' must be limited to the 'living labour time',that isto the producing agent of value-bearing time.[1119]

At this point, it is necessary to stress the logical necessity pertaining to Marx's thesis that labour time is the 'inner measure' of value. In the main, it can be summed up with the argument that the very concept of a commodity implies that it is exchanged because of the

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[1117]Marx 1976b, note p. 534; Marx 1968a, pp. 432–3.

[1118]See Sandemose 2018a, p. 14.

[1119]A point which rises a methodological prolem of the same structure, having especial significance for the theory of Measure, is Marx's introduction of the weighted average in the competition between capitalist branches leading to an average rate of profit, a factor working through the distribution of the social total capital on these different spheres, that is through the relative magnitude of capital allocated in each specific sphere, and consequently to a particular rate of profit: that is through the relative mass-proportion of the social total capital which each particular sphere of production absorbs (*verschluckt*) (see Marx 1968b, p. 172). If a certain development inside of social total capital results in masses of capitals pouring into a low-composition branch, swelling up relatively the parts of the total capital invested in such industries, this will result in a lower acerage profit rate, pressing down the social average organic composition of capital even without changing that composition in the sphere itself. It is probably this weighted average that Marx thematizes when he writes of 'Concentration of capitals (quantitative distinction of capi tal as at the same time qualitative, as measure of its size and infuence (*Mass seiner Grösse und Wirkung*) (Marx 1993, p. 275; Marx 1953, p. 186). See Sandemose 2016a, Section 4.

need for its material use value, so that it follows that no produced use value can serve as the common substrate for commodites. It is consequently only human labour that can serve as such a tertium comparationis. But of course, this conclusion can only be correct if one abstracts from the concrete labour in the congealed form in which it is present in the product. As such, it cannot be separated from the produced use value. Thus, it is labour as a living force, as Arbeitskraft, and abstracted from its congealed, 'dead' expressions, that makes up the substrate and infects products with value magnitudes.[1120] Now, let us look closer on the destiny of this living force:

In Chapter 15 (no. 17 in the English edition), where Marx analyses consequences of 'changes of magnitude in the price of labour-power and in surplus value', he presents a summing-up of his view of intensification, and declares to have shown

> … how machinery … confiscates the whole of the worker's lifetime by its immoderate (*masslose*) extension of the working day, and finally how its progress, which permits an enormous increase in production within a shorter and shorter amount of time, serves as a means of systematically getting more work done within a given period of time, or, in other words, constantly exploiting labour-power more intensively.[1121]

This translation to English reports the substance of the argument, taken for itself. So does the Aveling-Moore edition of 1887. But it seems to this writer that many a term would have been changed if greater vigilance had been shown. The gloss that is translated with 'immoderate' (this rather phony word is precisely the same as employed by Aveling and Moore!) is the Marxian *masslos*, which, as we have seen, should rather have been rendered 'boundless' or 'measureless'.

Furthermore, the last sentences are even less diligently translated. In *Das Kapital*, they are as follows:

> [*die Maschinerie*] *endlich als systematisches Mittel dient, in jedem Zeitmoment mehr Arbeit flüssig zu machen oder die Arbeitskraft stets intensiver auszubeuten*.[1122]

'Getting more work done' does not necessarily point to intensification of labour, a connection that is wanted here. In Marx' original, the theme is directly a 'liquefaction' of *labour*, that is

[1120]See Marx 1976b, pp. 126 and following; Marx 1968a, pp. 51 and following.
[1121]Marx 1976b, p. 544.
[1122]Marx 1968a, p. 441.

of a potential power. What is more, this crescendo of intensification is said to happen not inside any 'given period of time', but through each and every *Zeitmoment*.[1123] This use of the term should, I contend, be taken as a focusing not directly on the *Augenblick*, but rather on the force, the weight, found in the *Augenblick*. This would mean the *momentum* of the force expended in the intensive moment, and that Marx is describing not only a continuous labour process as such, but even its continuous form of existence as a unbroken series of discrete points, wherein the added force of labour power is demonstrated. Inside such a point, the Kantian thesis (see above) is valid; for there, labour quantity will figure as a unity 'in which multiplicity can be presented only by approaching toward negation = 0'.
These reflections concerning the interaction of two types of value-measures can be summed up in Marx's argument for the priority which belongs to his original formula for the inner measure in labour time:

> If the intensity of labour were to increase simultaneously and equally in every branch of industry, then the new and higher degree of intensity would become the normal social degree of intensity, and would therefore cease to count as an extensive magnitude. But even so, the intensity of labour would still be different in different countries, and would modify the application of the law of value to the working days of different nations [*unterschiedne Nationalarbeitstage*]. The more intensive working day of one nation would be represented by a greater sum of money than the less intensive day of another nation.[1124]

However, the problem is still what may lay behind Marx's formulation allowing for 'affection of labour-time as a measure of value'. If we accept that in periods, there exists such an affection, bringing with it an augmented mass of products selling (tendentially) at stagnant prices and (tendentially) by this means pressing competitors out of the market, then there must somehow exist a measure whose employment does not necessitate a clock-duration-measure, unless as an auxiliary. This necessarily is a force, and it must be taken to be hidden for measuring devices, in the sense that it must be what Hegel calls a 'Force proper, Force which has been driven back into itself from its expression', so that it can also be counted as that in which the manifold of its expression has 'disappeared'.[1125]

[1123]I can find no justification at all for using the word 'period' for a word like 'moment'.
[1124]Marx 1976b, pp. 661–2; Marx 1968a, p. 548.
[1125]Hegel 1977, p. 81; 1970a, p. 110.

One would scarcely adhere to an idea of letting workers meander around in diving suits on the shop floor with manometers fastened to them. Such a thought is good only for one thing, namely to indicate the obvious necessity of measuring the duration of their labourious wanderings by clock anyway.

The all-important point to note is that if value-producing labour is capable of creating a product that in one moment takes the form of 'inner' temporal measure of value, and in the next cannot any longer keep that form (but rather has the form of a doubling [say] of the material product *plus* radically changing the social necessary labour time per product), then it is not obvious that we would have a social problem with this duality. The problem arises only because we have a system of private property and extended competition. Here, the uneven distribution of the means to intensification of labour rises a problem for the concept of exchange value. This problem becomes obvious because of the unpredictability in social production, and in general because of the reciprocal isolation between productive entities.

So the physiological explanation goes for any society: Labour in general is measured through *time-span* of interaction between physical human labour and the stuff performing as *material* of labour. As is known, this measuring depends on an imitation of regularities of celestial bodies. To be useful in comparison, one has to operate with time-spans as measuring rods, which means uniform work on a uniform task. When machinery allows for it, the pace of work is changed, and the results measured, and so on.

When thus the time span varies with the intensity, so that there is a direct relation between time span and intensity in the worker’s physique, we should take it as a token that there is a given intensity laid down exactly in the moments that *uphold* time: As we saw above, the way of progress in physical activity and our consciousness of it, corresponds precisely the generation of the moments of time: The negations giving form to the Now, to the disintegration of it, and thus to the rise of a material negation that stands before us as 'future'. The final insight, giving us this unity of formal time and content, is the fact that the form is upheld as a continuum by a certain intensive *pressure*. This is the only 'dialectics of nature' in the Marxian system.

Now remember how we found that it is impossible to give a proof for the labour theory of value without defining the value substance as an outlet of a force, or rather *living* force, that is of labour-power. Such a real definition makes one committed to take even the forms of appearance of that substance as being related to that power. Now, the appearance-form of labour as such,that isas an activity, but independently of its concrete, material productions, is precisely time. However, as Kant correctly implied, time in itself cannot be perceived. On

the other hand, it can be measured. This measurement is a way of material appearance (as we saw), since it is born out of a movement of concrete celestial bodies, and so on Consequently, our *first* form of appearance of the value substance, labour as such, will necessarily be a concrete *measure*.

Let us for a moment intervene to notify that the Hegelian concept of 'form of appearance' is formally introduced in his *Logic* inside the Doctrine of Essence, not in the Doctrine of Being. On the other hand, it comes forward de facto in the latter doctrine, and precisely inside 'Measure', while inside Essence it appears as a progeny of that construction.

There is more than a simple parallel here. First, remember that Hegel's Measure is distinctly a piece of *material* logic. Also, his Logic as a whole is built upon an honest, conscious and belaboured attempt to show that human labour, in a distinct social setting, gives us the genesis of thought.

Hegel himself could well have used direct physical labour as an example in the section on Measure. For Marx's concept of labour lies side by side with Hegel's, and the latter would have had no difficulty in accepting Marxian reflections of human labour as a general phenomenon and concept. What he would not have accepted, or rather could not have realised, is Marx's point that fundamental supra-historical measure-related facts about human labour are so to speak expropriated and turned into fiendish, real abstractions in a certain society (like the bourgeois).

Now, at this stage, a note on the verbal correlation between 'intensity' and 'nodal point' is necessary.[1126] Both were crucial terms in the theory of physical measures in the tradition Marx met with, and they are unavoidable in a text aiming at showing his view of how a justified, relevant measuring of economicosocial relations is possible.

As an illustration, take the 'substance' called carbon dioxide. It has no liquid state at pressures below 5.1 bar. It is available also as solid and as gaseous. It has its triple point at -56.6 C.[1127] If kept in a storage vessel, changes can be noted at different temperatures with constant pressure 5.1, and in variations of temperature. Any observable point of change between two (possibly three) forms or states represents a function of pressure-and-temperature,that isof two degrees or intensive magnitudes. One is naturally inclined to say that the content of the vessel is a single substrate. However, while changes can be predicted according to functional composure, there is no immediate measure of content inside the

[1126] (A nodal point is function of a measuring device – originally a coil of rope with uniformly spaced knots, in the 17th century called 'common log', to measure a ship's velocity.) In this connection, it indicates (gives the measure of) a point in time-space, where a certain radical change can take place.

[1127]For simplicity's sake, we abstract from a fourth form, called carbonia, produced by supercooling heated CO2 at extreme pressure (40–48 GPa or about 400,000 atmospheres) in a diamond anvil.

nodes. In principle, the magnitudes of diffuse quality that might be subject to analysis, are not to be found. The way of measuring the different states, for example the hardness of the solidity, are unclear. The conditions for accepting the changing structure of the substance as belonging to a single entity appear as a conundrum. What seems to be clear, is that we have to localise new measures.

The importance of our problem is duly illustrated through the fact that Marx writes about a nodal point as an *Umschlag* of quantity in quality, and actually one which appeared as a reaction against a development that meant life or death for society.[1128] What is more: this deadly threat took the form a squeezing of the elements of the inverse ratio of necessary labour and surplus labour for social capital as a whole.

Once more, an illustration:

‘necessary labour’ ’surplus labour’

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While Marx, in our report on *Capital*, up to now has consistently employed the term ‘labour time’ (or 'duration') for the measure in question, which is of course still the Wertmaß, he now alternates it with the term 'quantity of labour', which of course indicates that there is another specified expression (other than 'time') to be used eventually. However, he does not give it a special term. Nonetheless there is now an urgent need of redefining the concept of time, as will be shown in detail below.

Given such drastic circumstances, partly historical, partly hermeneutical, how can we be justified in upholding the thesis that a labour theory of value was ever a viable measuring rod for societal relations? Let us look at some foundations in Marx’s theory.

4. The forms of value

The need for investigating the last-mentioned question becomes clear through a note to the first chapter of *Capital* (1867 edition), where Marx points out that while it is easy to find economists who are in complete agreement as to the measure of value through labour time, they at the same time have 'the most conspicuously contradictory presentations of money'.[1129] Obviously, Marx would like us to realise that between our immediate concept of

[1128] '... the society, which is threatened in the very sources of its life (*in ihrer Lebenswurzel bedrohten Gesellschaft)*' Marx 1976b, p. 533; Marx 1968a, p. 431.

[1129] Marx 1966, pp. 275–6, authors translation.

value and the concept of money, there must appear a series of 'intermediaries', '*Mittelglieder*' (as he likes to call such mediatives).

To begin with, one should focus on the original analysis of the measure of value inside *Capital* – that is, on the forms of value analysed in the very first edition of the work.

It should be noted that the content of that chapter, called 'The Commodity', is an analysis of the formal and logical nature of the *presuppositions* of exchange of commodities; it is *not* an analysis of this exchange proper. The latter is rather to be found in the second chapter, 'The Exchange Process'. (This separation of themes is, however, more distinctly conducted in the 1867-edition than in later editions.) The structure of the first chapter mirrors certain foundations of the Kantian-Hegelian theory of science, which are not to be separated or abstracted from their general theory of metaphysics and cognition. This means that they are to be found in *Critique of Pure Reason* and *Science of Logic* respectively, as tables of judgments of necessity.

What Marx calls the first 'form of value' he presents in this way:

> I. First or simple form of relative value: 20 yards of linen = 1 coat (x commodity A = y commodity B).

Now, in his appendix 'Die Wertform' in the same edition, he points out that one should be aware of the fact that the commodity linen, which is here posited in what he calls relative *form* of value, has the initiative in the process, which means that its possessor or 'guardian' is the active part. Thus the latter

> ...passes into a relation to the coat, that is to some other (*irgendeiner andren*) commodity, different from itself. This relation is the relation of equality (*Gleichsetzung*). The basis of the expression : 20 yards of linen = 1 coat is actually linen = coat, which literally means just that the commodity-species coat has the same nature, the same substance as the commodity-species linen, which is different from it.[1130]

Marx warns against the tendency to forget that '*the magnitudes of different things* are *quantitatively comparable* only *after being reduced to the same unity*.' Briefly, this means

[1130]See Marx 1955, pp. 265–6. Author's translation.

that the expression linen = coat, strictly according to its form, is identical with the traditional categorical judgment, as it is found in Aristotle and accentuated by Kant and Hegel.

In this case (as in many others), the categorical form of the judgment is a kind of *measure*. The quantity of substance 'linen' is brought forward to be measured. Since its external measure (’20 yards’) is so demonstratively pointed out (as are other conventional measures for all commodities in the chapter), it is clear that there is another type of substrate or 'substance' that is to be measured. As this substrate, Marx takes the labours that are laid down in the use values, since his deductive analysis, as we saw, takes the outlet of human labour power to represent the exchange value of products.

An important point immediately springs from these combined relations: Namely, the importance of the preciseness and agility in the *concrete* labour that lies behind the production of a certain material commodity. In the finishing of such a use value, as of a coat, there lies a craftmanship parallel to the one which constructs a piece of linen precisely so wide (20 yards) that its *value* matches the quantity of *abstract* labour inherent in the coat.

Here, it is worth adding that abstract labour is, seen through our external reflection, a given piece of concrete labour, conceptualised through its pure duration; what is abstracted from (but still retained) is the character of simplicity inherent in that concrete piece. If the piece is a length of complex (that is skilled) labour, it is abstracted from a multiplied form of simplicity.[1131]

The mere possibility of making versatile 'commodity equations' depends, consequently, on the existence of a relatively advanced division of labour. Given these presuppositions, one can also perceive the temptation that commodity owners do feel for acquiring a separate commodity that serves as a fixed means of exchange and easily, without especial skill, can be partitioned in pieces.

A quantity of coat is taken as what Hegel calls a 'specific quantity' for a measuring of the given quantity linen. As we noted above, in the Hegelian setup, Measure results immediately from the analysis of quantity, and comparisons between specific quanta form the first determination inside his analysis of Measure.

Let us illustrate with a point made by Carlson, in a study of Hegel’s chapter on Measure (incidentally, gold is used in the example):

[1131] ‘Simple average labour, it is true, varies in character in different countries and at different cultural epochs, but in a particular society it is given. More complex labour counts only as *potenzierte* [in English translation wrongly: *intensified*], or rather multiplied simple labour, so that a smaller quantity of complex labour is considered equal to a larger quantity of simple labour’ (Marx 1976b, p. 135). ‘*Potensiert*’ is unlike ‘*intensiert*’. Even a skilled labour can be intensified.

> The two measures are at first indifferent to each other. For example, the specific gravity of gold is 19.3. Specific gravity of gold is the ratio of (a) the density of gold to (b) the density of pure water at its maximum density at 4°C, when both densities are obtained by weighing the substances in air. But gold is indifferent as to whether it is measured against water or been measured against mercury or fine bordeaux. Gold has a series of quanta. Properly, gold is all of these quanta. This implies that measure is a metonym. One never measures a thing directly; one rather gathers together a series of relations between specifying and specified measures. A thing is finally measured only when all its ratios of measure are present. When specifying measure is reduced to series of specified measures, we begin to see quality and quantity in the process of sublation.[1132]

An aspect of the material immediacy which Hegel places on the beginning of his analysis, is that the acting subject, the measurer, is supposed to be engaged in *external* reflecting, that is takes his objects to be indifferent and external to itself. The examples therefore start with a materiality of the same sort as the Marxian use values employed as specifying measures below. (In these equations, the commodities to the left of the equals sign are said to be posited in 'relative value form', while those to the right are said to be placed in 'equivalent form'. In our amendment, the first ones are specifying measures, the others are specified measures.)

Presupposing for a minute that we can use commodities as such to exemplify measures, experimenting with hypothetical labour quantities rather than with thermodynamics, we can satisfy ourselves with an encounter with Marx's analysis, as it reaches its second stage:

> II. 'Second or unfurled form of relative value: 20 yards of linen = 1 coat or = u coffee or = v tea or = x iron or = y wheat or = and so on. 38 (z commodity A = u vare B or = v commodity C or = w commodity D or x commodity E or = y commodity F or = and so on)' [1133]

In the first example, Marx says, the labour contained in the linen was posited as equal only to the labour of tailoring. But here in form II, we have before us an 'endless' series of relative value expressions that can constantly be prolonged. Thus 'the linen relates itself to all

[1132]Carlson 2007, pp. 265–6.
[1133]Marx 1966, p .232; see 1968, 77).

possible commodity-bodies (*Warenkörper*) as pure forms of appearance of the labour contained in itself'. There follows an assertion of the genus we are looking for: 'Thus, the linen-value is here finally truly appearing as *value, that is as crystal of human labour in general*'. Note that the grammatical subject is here split in two: First 'linen' (the material), second the 'linen-*value*'.

Consequently, the genus (or 'substrate') 'value' does not appear here before some specific labour – given that it has actually been active in producing some specific product – can be put equal to any other labour.

As can be seen, the disjunctive form ('either-or') is distinctly present in this 'unfurled' value expression – to such a degree that one might be surprised by the weight Marx immediately puts on the inclusive aspect of the form. But actually, the reason for this lies in the view, underlined above by Carlson, that 'a thing is finally measured only when all its ratios of measure are present'. But this is not to say that we can depict it immediately in that way. Analysis has to be done via a development of a special, adequate *form of equivalence*. This will imply a development of the form in which the specific quantity is already placed (Form II). Therefore, if Marx's 'disjunctive judgment' should be taken to have scientific meaning, it must be understood as just a stage on the road towards a measure that can be accepted as definite.

First, before proceeding, let us explain: What are the conditions for calling Form I a *categorical* expression? They are two in number; first, there must be an equality relation, and that justifies our positing of 'linen = coat' as basic form. Second, there should be found a judgment connoted to it, which proposes a condition under which the categorical connection is warranted.[1134]

Such a condition Marx has introduced already, since his accentuating of the relation of equality (ER) has gone together with his underlining of the existence of a value relation (VR), '*Wertverhältnis*' in the relative value form. Once again, he says in the 'Appendix':

> The coat is only the same (dasselbe) as the linen, insofar both are values. Therefore, that the linen relates itself to the coat as the same as itself (ihresgleichen), or that the coat is set equal (gleichgesetzt) to the linen as a thing of the same substance, means that the coat in this relation passes as value (als Wert gilt). … The relation of equality is consequently relation of value.

[1134]For such judgmental forms, see Erdei 1981, pp. 556–7.

Now, the unity and totality of these two relations expresses simply a composition of a categorial and a hypothetical judgment. The latter's basic form is 'if A, then B', and in this case, it tells us concretely that for the object that is investigated, what rules, is 'if ER, then VR'.

Consequently, the appearance of a measure in the form of a disjunctive judgment seems fully justified.[1135] Still, for reasons that will soon be clear, we will hold on to the non-exluding seriality for a while,that ison the aspect Marx calls its 'as well as' (*sowohl als*). That means looking at all possible value expressions (specified measures) of the linen simply as a series of alternative specific material ('chemical') measures.

A similar point in the logical progressus is being anticipated in Hegel's chapter on 'Real Measure', where he analyses the interplay between different material measures. Especially important to our point are his sections on 'Measure as a series of measure relations' and its connected section 'Elective affinity' (*Wahlverwandtschaft*). This term applied to chemistry, and was first used in German in 1785. It was popularised by Goethe through the publication of his novel *Die Wahlverwandtschaften* in 1809, just a few years before the publication of the first two volumes of the *Science of Logic*. Here, Goethe depicted a relation between couples, women and men, where each individual was attracted to each of the others in ways that seemed equivalent to the solliciting of chemical forces. Actually, Hegel's use of the term can well be understood as influenced by Goethe's work, since chemical categories in actu (scil. chemical processes) for Hegel can be analysed as equivalent to human action, in the sense that conceptualisation of nature is for him a process of thought in a universal form, while thinking of course cannot be severed from the natural world. As an aspect of Hegel's 'real measure', elective affinity stresses the aspect of interaction between material entities in series. Such an interaction is necessary for Hegel's progression to the greatest conceptual force and preciseness of measure. For the problem remains that no conclusion is given as long as no secure concept of having reached the totality of possible measures is there; that is, as long as no concept of qualitative entities which can serve as specifying measures for one given specific measure is found. In fact, while we have reasons to think we are on the right track, the true concept of necessity is not reached. To illustrate, drawing on the fact that we have the disjunctive expression as a comparison, we can jump more than a volume forward in Hegel's *Logic*, where the author investigates the table of judgments that he takes to be brickstones for the Concept proper. While he points to the partition, or 'diremption' of the concept, which he takes to be a hidden force producing judgments, *Ur-teile*, he remarks that

[1135]For the argument, see Sandemose 1973a.

'an empirical disjunctive judgment is without necessity'.[1136] Consequently, we are always tempted to pull new exemplars into our series.

5. Forms of value and genesis of the world market.

At this point, let us return to Marx's distribution of themes relating specificly to 'value theory' in the course of the first volume of *Capital*. We have seen that in Chapter 13 (section 3,c.), on machinery, we find a separate investigation which is of thematic interest. Furthermore, we have looked briefly on the first chapter. According to Marx, this chapter is 'analytical',[1137] while others have called it 'a masterpiece of historical dialectics',[1138] and have accredited it a lot of 'historico-logical' labels. It is clear, however, that Marx's own characteristic is precisely to the point. In all its versions, the first chapter is primarily an abstract analysis of the *logical* presuppositions of the commodity and its exchange positions (not its position *in circulation*). Therefore, it investigates also the *basics* of a theme taken up in Chapter 3, 'Money or the circulation of commodities', though not specificly the insides of that chapter. However, we find a text of a dosen pages in between here, namely Chapter 2: 'The exchange process'. What happens there, is an enlivening of the logical movements which are schematized in Chapter 1. Characters such as 'relative value form' and 'forms of equivalent' here take the form of individual carnal relations. Thus it becomes clear that the commodity guardians have to be persons, and consequently are creatures bound to recognise (an[su]erkennen) 'each other as owners of private property' (1976, 178 italics added). To underline their alienated and reified thinking, Marx alternates between calling the actors now commodity owners, now commodity guardians, now simply giving the owner the name of his commodity. The apparent diffuse naming seems adapted to the problemes among these actors themselves.

Nonetheless, they are civilised beings, partners in a wide range of 'System der Bedürfnisse', subjects not interested in acquiring use values only for their own good, but also for families, communities, and potentially for their own businesses. They are consequently already drawn into all kind of 'chemical' processes in a society at large. This is of course a chemistry moderated in the Goethian fashion, and the individuals may well be cleaved between wishes

[1136]Hegel 1970a, 340
[1137]Marx 1966, p. 246.
[1138]For instance Korsch 1971.

to accumulate and a coveting of worldly pleasures, to choose „femmes folles de leur corps"[1139] instead of following a tendency to invest in modest goods, 'be it more repulsive than Maritornes herself'.[1140] Their situation is like this:

> To the owner of a comodity, every other commodity counts as the particular equivalent of his own commodity. Hence his own commodity is the universal equivalent for all the others. But since this applies to every owner, there is in fact no commodity acting as universal equivalent, and the commodities possess no general relative form of value under which they can be equated as values and have the magnitude of their values compared. Therefore they definitely do not confront each other as commodities, but as products or use-values only.[1141]

In fact, here we see the reason why it was necessary to present the mass of commodities as a disjunctive heap. In contradistinction to natural genera, in this heap we have to do with socially modified matters which serve to acquire other matters. Since they are thought to be exchanged according to an as yet unclear concept which by unstable producers is called 'value', they are posited as equal, and therefore each cannot exchange with more than one 'matter' only. All other potential joints are excluded in any given moment of time. As we saw, Marx remarked, relating to the Form II, that 'the linen-*value* is here finally truly appearing as *value*'. Now, having passed from the analytical first chapter the conclusion seems to be radically altered. But is that so?

Rather, that they 'do not confront each other as commodities', can now mean only that they *are* commodities, but do not confront each other as such. That means that they have not reached their adequate *Erscheinungsform* – form of appearance. Consequently, a distinct development must set in, making it possible for them to reach an adequate value form.[1142]

[1139]See Marx 1968a, p. 99, note; Marx 1976b, p. 178, note.

[1140]Marx 1976b, p. 179; Marx 1968a, p. 100.

[1141]Marx 1976b, p. 180: Marx 1968a, p. 101. [We could convey the peculiarity of the existing English translations of *allgemeine* as 'universal' to Sandemose, though now we will not edit it into '*general* equivalent' (as we prefer) in his essay.]

[1142] Incidentally, this means that the interpretation in Rubin 1973 (chapter 14, especially pp. 148 and following), which can be understood to be that we have to do with 'commodities' only when products are in physical exchange relation, is not viable. Strictly speaking, Rubin's view is contradicted already by Marx's remark that a commodity is a product which is produced for exchange. It is true that Rubin tried to modify this view, but the argument remains unclear. Furthermore, Rubin's position is logically weak. It leaves open the question of how certain given products from the outset can be placed in a relation to money, while others cannot. Also, Rubin overlooks that the problem should be approached with concepts of 'an-sich' and 'für-sich': A produced article can be a commodity implicitly, and therefore find a place in our 'disjunctive heap'; there, the commodity, which can well be named after its possessor, is a 'being-for-self', since it gets recognition from others of its own species. As will be seen below, this way of thinking lies behind the two first chapters of *Capital*.

In fact, however, in the edition of 1867, Marx did actually present the result of this development inside the *first* chapter– and in the following way:[1143]

> Each and every of these equations, like 20 yards of linen = 1 coat, also includes ... the retroactive movement (*die Rückbeziehung*): 1 coat = 20 yards of linen, where the coat expresses its value in the linen and, precisely through this operation, lets the linen appear as equivalent. Since this now goes for each of the countless relative value expressions of the linen, we get:
>
> III. Third, inverted or retroactive second form of relative value:
> 1 coat = 20 yards of linen.
> u coffee = 20 yards of linen.
> v tea = 20 yards of linen.
> x iron = 20 yards of linen.
> y wheat = 20 yards of linen.
> etc. = 20 yards of linen.[1144]

In this edition, there is no specific section on 'commodity fetishism'. Instead, Marx presents such themes in between Form III and the consequential Form IV, and the latter he formulates in this way:

IV. The specific relative value form of the universal equivalent
20 yards of linen = 1 coat or = u coffee or = v tea or = x iron or =y wheat or = and so on
1 coat = 20 yards of linen or = u coffee or = v tea or = x iron or =y wheat or = and so on
u coffee = 20 yards of linen or 1 coat or = v tea or = x iron or =y wheat or = and so on

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[See also the *Grundrisse*: 'Nothing is more stupid than to say, as Mr. Proudhon does, that capital changes from product into exchange value by the act of exchange, i.e. by the fact that it re-enters simple circulation. We would thereby have been flung right back to the beginning, even to direct barter, where the genesis of exchange value from the product is observed. That capital can and does re-enter circulation as commodity after the conclusion of the process of production, after its consumption as use value, is already implied in the fact that it was presupposed as self-preserving exchange value. But in so far as it now becomes commodity again only as product, and as commodity becomes exchange value, gets a price and as such is realised in money, it is a simple commodity, exchange value in general. As such it is in circulation exposed to the even chance that it may or may not be realised in money, i.e. that its exchange value may or may not become money. It is therefore much truer to say that its exchange value has become problematical—previously it was notionally posited—than that it has come into existence. And what is more, the fact that it is really posited as a higher exchange value in circulation cannot have arisen from circulation itself, in which in its simple determination only equivalents are exchanged. If it comes out of circulation as a higher exchange value, it must have entered it as such' (Marx 1986, pp. 237–8).]

[1143]Marx 1966, pp. 239–40.
[1144]Marx 1966, p. 233.

v tea = and so on.[1145]

As can be seen, each and every commodity is here explicitly shown as victim of the negative principle of a disjunction: Even when positing as universal equivalent, they are always restricted to acquiring one and only one other commodity at a time. This is, of course, a limitation that underlines their individuality in a negative sense; but on the other hand, they are still universal in their presentation: They are the universal equivalent in its relative value form – a blatant contradiction. But such a contradiction is precisely the last condition for the development of what Hegel calls the *Individual*. If we look closer at Marx's setup, we will see that what he presents, is *a disjunction of the disjunction itself*: Every disjuncted joint from Form II is taken up again, and disjuncting itself in a new stage.

This operation is the one that the Italian logician Leo Lugarini once recommended as an amendment of Hegel's *Logic*, as regards his treatment of the disjunctive judgment. For it is here that Hegel tries to show a frictionless passage from Necessity to Notion. He fails, mostly for reasons not to be discussed here.

Lugarini's contention is that the Particulars in the judgmemt, stemming from a disjunction of an Universal, should themselves be disjuncted; he describes the result in this way: '[the division] must repeat itself also in their case; and by the fact that they constitute similar particularities, their differentiation will give room to a mass of individualities, whose relations, again, will take the form of community (*comunanza*) and mutual disjunction'.[1146]

And this is in fact, Lugarini contended, '[...] the individual, which the disjunctive judgment itself points out when one develops it in a consequent manner, taking one of the particularities residing in its predicate as subject in still another disjunctive judgment'.[1147]

Marx's point in showing the special status that must attain to the universal equivalent, is in all probability that when the actual selection of a money commodity occurs, that commodity appears as the fruit of a contradiction, a fruit that certainly has left its root and source behind for good. There is no perfect *Aufheben*. The universal equivalent, when it is turned into money, cannot loose its status as a relative form; it must itself remain a commodity, and cannot take over a certain value, unless it is expressed in a relative form of value. This argument would soon appear as an insight that effectively crushed those economic models which were at the same historical time built by the marginalist school in economics.[1148]

[1145]Marx 1966, pp. 239–40.
[1146]Lugarini 1957, p. 243.
[1147]Lugarini 1957, p. 245. Italics added.
[1148]See the works of Bortkiewicz and Sweezy.

> But retroactively [*rückbezogen*] each of these equations gives coat, coffee, tea, and so on as universal equivalent; consequently, they give the value expression in coat, coffee, tea, and so on, as a universal relative value form for all other commodities. The form of universal equivalent always belongs to only one commodity in contrast to all other commodities; but it belongs to each and every commodity in contrast to all others. But if each and every commodity is positing its own nature form [*Naturalform*] in front of all other commodities as form of universal equivalent, then all commodities are excluding all [commoditites] from the form of universal equivalent, and through this they exclude themselves from the social valid exposition of their value magnitudes.[1149]

We must allow ourselves yet another extensive quoting: In explaining the above passages to the reader, Marx writes:

> The analysis of the commodity yields all *essential* [*wesentlichen*] determinations of the *value form* and the value form itself in their contradictory moments, the universal *relative form of value, the universal equivalent form*, finally the never terminating *series* [*Reihe*] of simple relative value expressions, which first [*welche erst*] constitutes a transitional stage [*Durchgangsphase*] in the development of the value form, for finally to invert [*umsuschlagen*] into the *specific relative value form of the universal equivalent*.[1150]

After having delivered the above description, which, as we shall see, amounts to one of the most important theses in his 'analysis' of the *Wertmaß*, Marx leads us into Chapter 2, and once again actualises Goethe:

> In their difficulties (*ihrer Verlegenheit*) our commodity-owners think like Faust: 'In the beginning was the deed'. ['*Im Anfang war die Tat*'][1151] They have therefore already acted before thinking. The natural laws of the commodity have manifested themselves in the natural instincts of the owners of commodities. (*Die Gesetze der Warennatur betätigten sich im Naturinstinkt der Warenbesitzer*.) They can only

[1149]Marx 1966, p. 240.
[1150]Ibid.
[1151]Goethe 1997 (Scene 3, Faust's Study, line 1237).

> bring their commodities into relations as values, and therefore as commodities, by bringing them into an opposing relation with some one other commodity, which serves as the universal equivalent. … But only the action of society [*nur die gesellschaftliche Tat*] can turn a particular commodity into the universal equivalent. The social action of all other commodities, therefore, sets apart the particular commmodity in which they all represent their values. The natural form of this commodity thereby becomes the socially recognised equivalent form. Through the agency of the social process it becomes the specific social function of the commodity which has been set apart to be the universal equivalent. It thus becomes – money.[1152]

Our interpretation so far is that the judgment forms of the first chapter are the abstract thought-forms (or we could even say *schemata*), into which the 'natural instincts' of the commodity guardians transform themselves when put into action. These thought-forms gain their character of necessity (categorical, hypothetical, disjunctive) from the specific dynamics and interrelations of a group of people with commodites – people whose interrelations are weighed down by products to be alienated.

One should find it fair to believe that Goethe's chaotic, chemically charged but undetermined, arrant minds in *Die Wahlverwandtschaften* is a conscious contraposition to the viewpoint in Faust that a beginning has to be a specific 'deed'.

Even the *Naturinstinkt* of such owners will not change into action unless some deficiency is felt. In Marx's description, two such wants can be observed: firstly, each and every person is there only because he has been forced to recognise some other as a private owner of property, in order to acquire a good; secondly, each and every of these persons is experiencing the drive to regard their own product (the commodity) as a universal equivalent for all the others. Everyone thus has a material representation of the concept of such a universal equivalent, and the universal need for it. All taken together, each and every person present regards his product as his own and calls it 'mine'. In this operation, it is already presupposed that others are in the same position. Else, the 'mine' would not be a viable logical entity at all, not to speak of its being psychologically impossible. A general likeness between all actors and their needs is therefore presupposed.

Now, this is an enlivened description of Form II – but at a balance point. On the one hand, there is a universal affinity among all guardians. But on the other hand, their immediate needs for products point in all directions. Still, a special consciousness of a central position

[1152]Marx 1976b, pp. 180–1; Marx 1968a, p. 101.

of the need to realise a universal equivalent, a measure for all other commodities, is extant. For beside the general affinity of all 'mines', there are also other, general affinities that point to an immediate need for conserving commodities for later productive and individual consumption, or to the immediate want for hard metals, or for nicknacks, or for hoarding – in brief, affinities that reinforce the need for an equivalent. The general contradiction between value and use value inside products, and

> ...the need to give an external expression of this opposition for the purposes of commercial intercourse produces the drive towards an independent form of value, ... finds neither rest nor peace until an independent form has been achieved by the differentiation of commodities and money.[1153]

What happens here can be said to be simply the correction of a negation which is the same as the one that Hegel points out as common to all drives to measure in a way as precise as possible. Of importance is his concept of *rule*. It pops up early in his analysis of 'real measure'. In all material measure operations, as we saw, there will be divergencies in the comparison of ratios; while a certain ratio will exist for the result of measuring X in a material Y, another ratio will be present for measuring X in s – and this is as process going on endlessly. Consequently, the result, at least periodically, is the deliberate construction of an official magnitude setting a limit for deviations that are accepted.

Such an 'institutional' acceptance of divergences indicates that there exists what Hegel calls a 'substrate', a process in nature whose conception will indicate the real basis for what is sought. The very impossibility of bringing the progress amongst materials, use values or commodities to a halt in itself, indicates the existence of a 'substrate' like this. Endless processes of such a kind are examples of what Hegel calls the 'bad' or 'spurious' infinite. The substrate that is not caught by means of them, must be supposed to be an entity that represents the very genesis of the relation that is to be measured. In our most outstanding example, it is 'value', or rather the entity or relation that makes up the essence of such a 'value'. Furthermore, we have seen how Hegel actualises this dilemma in his contention that an empirical disjunctive judgment is 'without necessity'. The problem is: We are not inside a pure philosphical discourse. We are not engaged in the (admittedly useful) general debates on the status of human thought. Is it possible that what is under discussion here, the science of social economics, can deliver a judgment form that is empirical, yet necessary? I think it

[1153]Marx 1976b, p. 181; Marx 1968a, p. 101.

can be shown that in the structure of human action, this possibility is present, but only if the action is material, so that if it has a moral aspect, the latter is connected to material labour. This is, of course, the situation in Hegel's scenario of lordship and bondage. But Marx's analysis is to a much stronger degree connected with class relations, as we shall see presently.

Let us recapitulate the structure from *Grundrisse*, combining labour with double negativity, considered above, in our first section. We saw there that the form-giving activity of labour consumes the object and consumes itself, but it consumes the given form of the object only in order to posit it in a new objective form, and it consumes itself only in a subjective form as activity.

We were there engaged not in a measuring of a given product, but in its construction as use value; and we should certainly find it fair and probable that such a genesis contains any possible source for any infinite regress that may arise in the course of this production, so that that source can also be observed and neutralised. And in fact it is in this construction of a 'neutral' product that such a regress is aufgehoben and excluded, as Marx himself indicates. It is a double negation like this one which Hegel calls the 'good' or 'affirmative' infinite. The regress is superseded partly because we are analysing a process with a definite aim.

Let us pause for a moment, to point out the logical background for the treatment of this operation, as it is to be found in Hegel's work. His analysis begins with what he calls 'real measure', indicating a starting point in material measuring processes.

As we have seen through the elementary forms of the first chapter, the series to be found there are of a logical nature. This probably explains why the striving of the Warenhüter to acquire the universal equivalent will not rest until 'achieved by the differentiation of commodities and money', as we saw Marx contend. For this is simply the Hegelian way. An example: The reduction of measure relations which at first ranked as self-subsistent measures, establishes their common substrate; this is their continuation into one another and hence the indivisible self-subsistent measure which is wholly present in its differentiations.[1154]

This is Hegel's view as expressed early in his chapter 'The becoming of Essence' – inside the section on Measure. The comment is somewhat peculiar, for its preteritum refers not to his own (Hegel's) main text, but rather to a note inside the 'Remark' (on Berthollet's chemistry) added to his section of elective affinity. To contend that a reductive research inside science can deliver definite backing for a partition of a genus presents us with serious problems.

[1154]Hegel 1969 pp. 375–6; 1970b, p. 446.

Strictly speaking, it would contradict Hegel's own dictum about the lack of necessity in an empirical disjunction.

The problem Marx is handling is of another kind, and that makes it possible for him to save dialectical reason, while Hegel tacitly lets the argument rest. For the joints that Marx is investigating, appear natural and simply 'chemical', while in fact they are products of conscious activity combined with material nature.

A specific commodity, which was indicated by the empirical concept of value (*Wertbegriff*) and therefore already was accepted as such, changes its Existenz when it is combined with actual money. What its guardians now experience, is that what they already had established as their role, namely their form of appearance as guardians of an universal equivalent, now turns into actuality, precisely through their being owners of money.[1155] As such, they are the heap of Einselne from the final disjunction, whom Marx regards as the collective which in Hegel's failed attempt would have appeared as a 'real Being-for-self'.

There has thus been accomplished a 'reduction' of the set of nodal joints, namely, of the totality of elementary value expressions making up the disjunctive totality. The concept of value, present in all owners, has now turned the way they all envisaged, and each and every

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[1155]There is good reason now to stress once more the importance of the empirical moment in the analysis of the commodity.

A conclusion of his analysis, which Marx presents here, is the following: 'The decisively important thing, however, was to discover the inner, necessary connection between value form, value substance and value magnitude, that is expressed ideally, to prove that the value form evinces from the concept of value (*daß die Wertform aus dem Wertbegriff entspringt*). Now in a letter to Kugelmann (Marx 1965a, pp. 552–4) Marx mentioned a reviewer of Das Kapital I who had made 'the greatest possible concession' by accepting that if one 'über Wert sich überhaupt etwas denkt', then one had to accept the conclusions in Capital. This formulation indicates accurately what we have underlined: it is a question of analysing the empirical presentations of the relation between commodity guardians. But Marx continues, by another note: 'The miserable one (*Der Unglückliche*) [namely the reviewer] cannot see that even if there were no chapter on 'value' (gar kein Kapitel über den 'Wert' stünde) in my book, then the analysis that I give of the real relations (*der realen Verhältnisse*) would contain the demonstration and the proof of the actual value relation.' What Marx has in mind here, would seem to be a main point in his theory of history, namely, that capital takes the form of an auto-subject which reflects basic relations of exchange-value.

At this point, Marx continues: 'The babble of the necessity of proving the concept of value is based on the most complete ignorance as well of the matter in question as of the method of science.' Then, he steps over to a general description of the economic base of societies, which fully confirms that he is writing about the empirical search for a concept (eventually, 'value'). The status of the *Wertbegriff* as an empirical one, is of course stressed and underlined by the report (quote) from the 1867 edition given above.

However, it is an extraordinary fact that Marx has been misinterpreted in this matter. The letter to Kugelmann has been used in attempts to nullify the necessity of a scientific-theoretical base for the exposition and investigation inside *Capital*. A recent example is presented in Dybedahl 2019, who – in an article in the Norwegian journal *Gnist* – lets out of his quoting the first and fundamental part of Marx's comment, leaving the impression that Marx was not interested in a basic value theory. Dybedahl then confuses 'theory of value' with 'concept of value', and even manages to deny the existence of a 'deductive' proof of the 'theory of value' inside *Capital*. Any reader of Marx is in the position to refute such a thesis. (In most editions, the proof starts on about the fourth page of the book.)

There exists an unholy spiritual alliance of intellectualist 'neo-Marxism' and Eastern 'diamat' Marxism in the Western world today. '*Gnist*', translating '*Iskra*', is a practical example. Actually, there seems to exist something close to a campaign amongst certain intellectuals that, possibly unconsciously, are discrediting the real content of the Kugelmann letter. Taking an Internet sweep on the subject may give interesting findings.

one of them is now, as we saw, a subject capable of being 'wholly present in its differentiations'.

I would contend that, as so many a place in the Marxian corpus, we have to do here with a historical review of the genesis of the fundamental concepts and problematics in German Idealism. To this extent, it also gives a glimpse into the core of all of the bourgeois philosophy since Descartes: The commodity form of the product enlivens the latter and opens the channels to non-religious speculation of unity and reciprocity in man-made nature and nature-made man.

Experience in the commodity-world hides to us the true relation of production, and in a fetishised form which gives an impression of natural necessity. It presents the form of necessity in a new historical guise, and thereby gives the means for a solution of the problems posed by the modalities of a world of that new kind.

The so-called aprioric truths show themselves to be absolutely necessary on the background of human-social structures inside their relation to nature. The fundamental form of this discovery is rational, and consequently posited in categorical judgment forms. The bourgeois class, originally apt to form the new world in its own image, has these forms in it already as a *Naturinstinkt*. The finishing touch, the idea as completed, is as contended above by Marx in his reflections in the *Zur Kritik*, that '[g]old and silver help to create the world market by anticipating its existence in their concept of money'.[1156] The disjunction has turned into a syllogism with aprioric truth.

What our guardians now do accept, is that any commodity whatsoever, regardless of its material composition, incarnates value and thus recognises themselves as guardians of the one and same substance, that is, 'value'.

Let us go somewhat closer into this.

Certain logical forms, depicting a mass of commodity owners on the edge of interaction, have shown their common certainty by adhering to the view that there exists a certain substrate called value, which is common to them. Undoubtedly, they have shared a *Wertbegriff*. Their opinion has been – according to logical form – that such a substrate exists in potentially endless series.

These commodities can be called nodes, that is points in a nodal line, because they present themselves as disjunct, that is being accessible in only a problematic way: If the linen-owner externalises his commodity and appropriates the coat, his commodity is not functioning any more as a specific quantum in the measuring process, nor is the coat, and so on, and so on

[1156]See above, Section I.

The commodities are going in and out of the measuring arena. They are singletons, nodes to be overwhelmed and resurrected endlessly.

Of course there is still more to be said about the nodal line considered as a measure. For even if it should have had no inherent difficulties because of the commodity character of the nodes, its form is an empirical one. The endless mass of quantitative ratios of commodities will never produce a conclusive result, never give a proof for the character of the substrate. That a substrate is there, is clear; its character is unclear. The point here is that even if the proof is available, it cannot yet be known by our guardians. Again, remember the explicitly hypothetical character of the whole Marxian setup.

If we once more turn directly to Hegel, he does not accept any conclusion like this in his treatment of the same problem. To some extent, we have already touched upon that, in mentioning his 'reduction'. Carlson, who actually accepts Hegel's way of tackling the case, writes the following: 'It may seem that the series of measures are infinite in number and therefore incapable of completion, but that is not so. Metonyms inherently refer to context – a completed idea'.[1157]

But of course, the completed idea must first be tested to check its possibilities and its content. However, Carlson's report is correct: Hegel lets any real argument be, possibly because he is convinced of having a grand finale up his sleeve.

6. The measure of value: Intensity of time.

Anyway, intermediately, consider how Hegel specifies his 'reduction'-argument presented above, especially as to what his 'differentiations' do consist in:

> For this difference, there are present the determinations of quality and quantity that the measure contains, and everything turns solely on how these are posited in it. This, however, is determined by the fact that the substrate is in the first place a result and only in principle [an sich] a mediation; but because this mediation is not yet posited as such in the measure itself, this latter is in the first place a substrate and with respect to determinateness, indifference.[1158]

[1157]Carlson 2007, p. 285.
[1158]Hegel 1969 p. 376; 1970b, p. 447.

Hegel here underlines once again the initial external position of the measurer: Measure itself is an *Aufheben* of precisely both Quality and Quantity, so there are not any other forms that are available for the differences inside the objects confronted by the measuring activity. This means that Measuring is a process that is led by a subject as Being-for-self. Hegel had introduced the treatment of this 'Being-for-Self in Measure' (*Das Fürsichsein im Masse*) in the chapter on Specific Quantity, in this way: 'This negative unity is a real being-for-self (*reales Fürsichsein*), the category of a something (*Etwas*) as a unity of qualities which are related as measures – a completely self-subsistent something'.[1159]

In the section on Quality, Hegel has determined the Something as 'only the beginning of the subject'.[1160] Here in the Measure, it has clearly been developed further, but still only to a being-for-self (albeit real), that is, a subjectivity that keeps excluding itself from others and from Other. Hegel calls it 'polemical'. It is unilateral. It represents a subject that functions like a parallel to any class member in the Marxian *Capital* – standing for an activity that is strictly confined to the economic exigiences of the moment: The role that is behind any character mask.

The appearance of a 'real being-for-self' points back to the already accepted relation of 'external reflection': The act of measuring viewed as an independent act from an outer subject (measurer) onto a world of interwoven qualities-and-quantities, requires a subject which is on the same level as the object. Even the simplest act of measuring has shown that there is an interaction between measures, an interaction that here is a consequence of human measuring practices. But obviously, this is the same as saying that subjective activity is measured as an aspect of other natural features in the objects.

So our investigation leads us into the heart of the history of science. Here is a Kantian reminder:

> Something dawned on all investigators of nature when Galileo let balls of a weight chosen by himself roll down his inclined plane; ...[namely] that reason has insight only into what it itself produces according to its own plan; and that reason must not allow nature by itself to keep it in leading strings, as it were, but reason must – using principles that underlie its judgments – proceeding according to constant laws and compel nature to answer reason's own questions (Kant 1996, B XII-XIII).

[1159] Hegel 1969, p. 347; Hegel 1970b, p. 411.

[1160] 'The negative of the negative is, as Something, only the beginning of the subject [*Subjekt*] – being-within-self (*das Insichsein*), only as yet quite indeterminate (Hegel 1969, p. 115; see Hegel 1970b, p. 123).

With principles and experiments, reason should 'compel the witnesses to answer the questions put to them', Kant continues.

This latent unity of man and nature – sternly modified by Kant's own theory of the noumenon – was a forerunner of Hegel's entity called Spirit (*Geist*). Hegel's concept of such a unity had its background in his notion of disciplined labour in the Phenomenology. It could not be sufficiently understood and exposed before Marx, to whom it fell to make a more specific analysis of labour. To reach some conclusions of the true content of the latter, we will try to explain the point of Hegel's introduction of the category of Quantity:

Hegel's Being-for-self is a development of the qualitative Something. The double negation, which we saw must belong to this preliminary subject, has the potency of negating itself, which means that its qualities, and its quality as such, is seen in nothing else than its own being. So to speak stripped of all qualities, it is considered simply as an abstract One, a thought that leads to the concept of number and series of numbers – and is then developed to a thorough analysis of higher mathematical concepts.

In a capitalist society, dominated by and dependent on individuals producing collectively, but doing so explicitly in the guise of being isolated characters who are selling their powers to capital and in this way confirming their existence as expropriated from the material world, it is understandable that the human life-expressions, like labour itself, is a target for such quantification and measurement.

However, that this must lead to the necessity of studying the concept of time itself, and to conclude that labour is the entity that upholds time was an insight that could only be fully reached from a Marxian point of view.

There is, furthermore, nothing unrealistic in Hegel's theory of the genesis of Quantity. In fact, even if it is here (admittedly) presented extremely skand so ony, it clearly marks a progression in comparison with Kant's, which depends on a subject's notion of its own mental syntheses, as they follow each other constantly in time.[1161] These syntheses are equal to another because they have no other content, while in Hegel as well as in Marx they have different *qualitative* contents that are then put in an abstract modus.

In discussing this theme, we have contended that labour, as subsumed under capital, has both a quantitative and a qualitative side. As for its qualitative aspect, we have underlined the significance of what Marx calls concrete labour, which is the physical form-giving activity on materials outside the worker. The result of that activity is, ideally, a use value. The work

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[1161]'...a presentation encompassing conjointly the successive addition of one item to another (homogenous item) [*von Einem zu Einem (gleichartigen)*'], see Kant 1996, p. 275 (B 183).

has then carried with it other use values (utensils, materials) in the perfection of that latest use value. So concrete labour is always a creation of new results, maintaining and bringing with it old results. Concrete labour is also always a wear and tear on the worker's physiology, 'producing' an experienced, skilled, and worn labourer.

Consequently, concrete labour has a specific intensity. In the chapter on the commodity, this is expressed by Marx as follows: 'Socially necessary labour-time is the labour-time required to produce any use-value under the conditions of production normal for a given society and with the average degree of skill and intensity of labour prevalent in that society'.[1162] There is obviously compelling reasons for saying that a concept of intensity is connected to the concept of concrete labour. It belongs to the qualitative aspect of production.

On the other hand, the context in which 'intensity' is introduced (and the quote in question is its first mention in *Capital*), is one of *quantity* (scil., labour time-duration). So it stands to reason that it is implied that '(normal) intensity' must be a quality that is presupposed to be measurable and can be turned into a quantity, that is a number, which here is a degree, so that the number is the One (unity), as Kant has explained to us.

The quality that is being measured is labour. But as long at that labour is a concretum that the body undergoes in the process, we can suppose that pulse or blood pressure are indicators, amended by measuring of 'stress response' and eventually related changes in hormones and other signal substances related to increased stress, both physical and psychological.

'Abstract labour' is concrete labour measured out in extensive time. The measuring activity goes on through quantitative means (built on natural clocks). However, quantity must have a genesis, and we saw where. It is in the person. Marx shows one must go further than Hegel. Our reading of the Hegelian Beingfor-self hints at the preconditions of measuring the worker's activity inside capital. The worker himself, whose time-spending is being measured, must as a person be measurable in principle, before we can chain him to a externally reflecting capitalistic measurer.

Abstract labour, quantifying of labour, is not a question of social agents counting hours, minutes and seconds from observation posts outside the labour process. Measuring here is rather a function of the Being-for-self of the worker himself – precisely as we saw in the analysis: The measuring activity defines a specific level is reached in the subjectivity itself. The activity of the worker brings with it his abstraction, his abstracting himself from the means he works with, a type of abstraction fortified by his 'absolute poverty', his absence of

[1162]Marx 1976b, p. 129; Marx 1968a, p. 53.

property, or rather with the possibility of that continuous kind of self-consciousness. This does of course not mean that his existence as a time subject is a solipsistic way of existence. The point is rather that he takes part in an inter-human activity and therefore constitutes simultaneity and succession. To put it into other words: It is meaningless to talk of abstract labour without presupposing that what is measured, is an object of the worker's own consciousness of time. To think otherwise would be to discard one of the most important insights from Hegel's analysis of the labour of the bondsman: Namely his consciouness of being supervised and dominated in a manner that concentrates on his own consciousness, especially of his understanding of how he discretely can free himself by demonstrating his productive skill to others; for besides, it is precisely through this mental structure that the capitalist can urge him to a swifter and more intensive work. In this way the saying of the Proverbs is once again confirmed: Timor Domini principium sapientiae.[1163]

Furthermore, as we have already contended, the material syntheses we continuously construct in intercourse with the world 'outside', has its abstract, negative result in the form of time (the Nows, and so on). In so far, time is the workman's own rhythm. All taken together, it becomes clear that we have before us an immediate transition from the basic fact, which is the existence of an intensity of labour, to its expression in extensive time. This is what Marx calls the labour time as inner measure; but he fails to add that when it is 'inner', then it is in relation to the 'outer' measure in the gold; while in relation to inner intensity, it is rather itself an outer form.

According to this, the time structure of consciousness, related to its construction of a given object, is present in the finishing of the material product. If we have to do with a commodity, the length of the labour time gives an 'outer' measure which can immediately be compared to the duration of the socially necessary length for the item in question. Simultaneously, we have to do with a *formal structure of intensification* that is fully identical with the formal structure of time.[1164]

This last identity relates to an intensity that can be immediately compared to a social average, just as does the 'outer' labour time delivered in the product.

What matters, is to note that analyses such as the one presented by Marx in the *Grundrisse* (*Verzehren des Verzehrens* ['consumption of consumption itself']) definitely implies as already pointed out, that any concrete labour itself has a time structure, qualitatively. This is

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[1163] *Proverbs* 9, 10-12.

[1164] The word 'intensification' in this meta-definition is employed to underline that we here are talking about a continuous human activity included the in-depth movements of nerves and organs in the labour process. That is, its significance is very different from the meaning of the same gloss used to describe historical introductions of machinery and so on.

the reason that time in the abstract can appear as value measure. But as long as concrete labour, which can be described as average intensity labour, is the ground for the abstract time, it follows evidently that it itself has the form of concrete time, and can appear as abstract in the moment that competition has made all labours alike and abstract once again! If these points of view are acceptable, then what about what Marx may have meant in saying that it is possible that 'labour-time as a measure of value' may be 'affected'? It should be clear that he must think of situations with relatively harsh changes in velocity of work, in either nations as wholes (as compared with other countries) or in certain branches, changes that are being kept permanent for structural reasons. Technological or revolutionary changes might be in the picture. Many less dramatic backgrounds are actual as well.

Still, Marx can scarcely have had in mind other events than those which follow from a rise in labour intensity. And he must have been thinking of the measure which lies in the succession of Nows, where each Now (*Zeitmoment*) appears as a force with average intensity. He will reserve the term 'labour time' for the outer measure in relation to an 'inner' intensity. An 'affection' of this measure will normally be a 'condensation' of labour, given the historical tendency of capitalist production.[1165]

However, another consequence, at least as important, which follows from the pointing-out of the unity of extensivity and intensivity, is that the time series which is adopted by Marx for his economic theory, is not the one that Immanuel Kant employed (as good as uniquely) in his theory of scientific cognition. For in *Critique of pure Reason*, the time-form which dominates is the one that John McTaggart called the B-series, that is a unity of succession and simultaneity, appearing first and foremost as inner (of states of consciousness) and outer succession (among spatial perceptions). These forms are those which Hegel called the modi of time. What McTaggart called the A-series, that is the sequence past-present-future is for Hegel the *dimensions* of time. We have treated it as a dimensionality with a fulcrum in the present (the Now). Here, the subjectivity of time comes to the fore, together with a striving for objectivity that is virtually absent in Kant. It is a time-concept that is truly worthy of Marx, and it incorporates the time modi in an overreaching, dimensional movement.

[1165] ['...the employment of machinery increases absolute labour time, and therefore absolute surplus value, even without any prolongation of the working day. This happens through the, so to speak, *condensation of labour time*, in which every part of the time increases its labour content; the intensity of labour grows; there is growth not only in the productivity (hence the quality) of the labour owing to the employment of machinery, but in the *quantity of labour* performed within a given period. The pores of time are so to speak shrunk through the compression of labour. One hour of labour thereby represents the same quantity of labour as perhaps 6/4 hours of the average labour performed without the employment of machinery or with the employment of less efficient machinery '(Marx 1988b, p. 335).]

In the Marxian model, the negation of the negation leaves a definite material trace, in the form of a changed perception of the outer. Since the negation also negates itself, there is always a moment of self-deception in it: The impression of a changed world, where your own changing of it stands forward as something consummated by the outer without your own effort. Consequently there arises stubborn ideas of a 'Time in itself', 'a World in itself', or a 'Thing in itself'.

Rather, for Hegel, there exists a 'ungeheure Macht des Negativen': It successfully negates even the most petrified illusions, and finally discloses for us the 'Infinite'. In his view, even the reduced subjectivity of a Being-for-self demonstrates such an infinite, and even Marx would scarcely reject the term outright. The function of the infinite, as it is conceptualised in Hegel's works from 1807 to 1816, is adequatly illustrated by how the '*form-giving* activity consumes the object and consumes itself', in a production process where there is a continuous stream of successive *Aufhebungen* and momentuous infinites or *Nows*.

Each and every such moment is subjectively and objectively considered a possible turning point, opening up for changes in intensity and therefore even from manifestation of time as a measure of extensivity at a greater scale – or the other way around. It is no longer, as in Kant, a homogenous stream between 'reality and negation', where the latter is understood as nothing else than absence of reality, i.e., pure space '(= 0)'.[1166]

The double negation in its Hegelian-Marxian form, is *in general*, also the clue to human cognition: It reveals the factor that is common to both thought and nature, as long as human physical activity is shown as the base. Actually, sensibility and thought in the capital relation function as still other faculties that are expropriated gratis by capital. Included in this is the capacity of labour power not only to keep a homogeneous intensity over time, but also to let the pressure vary in periodic piece-work – here and there even to the extent of generating a new average level of such a physiological pressure.

This view differs for example from Postone's. Just as he does, one should take the measurement of the function of intensity to be impossible as a direct (immediate) operation (in human perception); but it is clear that it must go on anyway, which is proven by the fact that it can be shown that the logical structure of labour acts is the same as the logical structure of time. There can consequently exist a direct transition from intensity to 'extended time'. It seems that Postone cannot see this, and that he therefore involves himself in

[1166]Kant 1996, B 209 [p. 291].

speculations about 'historical time'.[1167] On the other hand, Marx should have presented this 'missing link' himself.

Furthermore, there are scarcely difficulties connected to this view. Extended labour time is a relation that cannot appear as what it is directly either, and therefore needs the gold. In the same way, the intensification needs the extended time, and appears as such. This latter then appears as money.

[1167]Postone contends, in his book *Time, Labor, and Social Domination*, that it is generally valid that 'all means of increasing productivity, such as applied science and technology, do not increase the amount of value yielded per unit of time' (Postone 2003, p. 197). To this thesis, obviously incorrect, he then mysteriously adds a note where he says that 'For purpose for simplicity and clarity, I am not considering questions of surplus value or the intensification of labor at this point'. However, later in his book, he introduces the following reflections:
'Nevertheless, the historical level of productivity does bear on the total value produced, if only indirectly: it determines the socially necessary labor time required to produce a commodity; this temporal norm, in turn, determines what constitutes a social labor hour. It has become clear that, *with increased productivity* [sic, italics added], the time unit becomes "denser" in terms of the production of goods. Yet this"density" is not manifest in the sphere of abstract temporality, the value sphere: the abstract temporal unit – the hour – and the total value produced remain constant.
That the abstract time frame remains constant despite being redetermined substantively is an apparent paradox that I have noted. This paradox cannot be resolved within the framework of abstract Newtonian time. Rather, it implies another sort of time as a superordinate frame of reference. As we have seen, the process whereby the constant hour becomes "denser" – that is, the substantive change effected by the use value dimension – remains non-manifest in terms of the abstract temporal frame of value. It can, however, be expressed in other temporal terms, with reference to a form of concrete temporality' (Postone 2003, p. 292).
But the problem we actually have with Marx's problematics here, implies that it is by no means clear why it should be aspects of (changing) productivity that should lead to a reliance on denser work-time. In that case, it would be better to insist that a production crises led to abrupt rise in density, but since such a crisis is often a crisis of overproduction, it is illogical to think that a solution of the crisis should consists in an intensification, meaning a rise in masses of commodities per unit of time.
Even more problematic is Postone's contention that 'this 'density" is not manifest in the sphere of abstract temporality, the value sphere'. Of course it is! Marx shows clearly how it counts as extensive magnitude, that is as abstract labour. This is immediately manifest when we analyse two or more industries where one is intensifying its labour. But since there will always be found lesser variations in intensity anyway (see Marx's reference to Adam Smith, above), Postone's contention is simply the same as an attempt to nullify the existence of any concept of intensity related to human labour.
It is also worth mentioning that in Tombazos 2014 no attempt is made to go deeply into the interaction between intensive and extensive magnitude. He tells us that '[t]he 'translation' of the working hours of particular intensities into hours of average intensity takes place on the market: the higher intensity of a certain labour must be recognised as such by the purchase of the commodity produced by this labour' (Tombazos 2014, p. 113). This is of course correct, while nothing like a causal analysis appears. Also, Tombazos has the following overview of the categories involved: 'Marx distinguishes between the notions of 'productivity' (in the strict sense of the term) and 'intensity' of labour. Concrete and particular labour can be more or less productive. Abstract and general labour is indifferent with regard to its productivity. It can only be more or less extensive and intensive. These determinations belong to the category of the [sic] quantity. The 'quality' of abstract labour is precisely that it has no 'quality' '(Tombazos 2014, p. 112). This ignites an interesting problematic in our context. As for Hegel, it cannot be said that a determination of quantity has no quality. On the contrary, since Hegel places quality as a generator of quantity, the latter is rather a variant of something qualitative ('a Something'). It is precisely this that comes to the fore through the quality of intensity, and its power to generate extensive magnitudes, if we follow Hermann Cohen:
'Extensive magnitude is the magnitude of comparison (*die Vergleichungsgröße*); for it consists in being made comparable and identical (*gleichartig*) in number. The object that it constitutes is for this reason only an object of comparison (nur Vergleichungsgegenstand), consisting in the comparison with other extensive magnitudes; however, when the objects with which the comparison has been made are taken away, there remains in the body (*Körper*) so to speak a foundation of magnitude' (Cohen 1918, p. 538, our translation).

On this background, let us make a brief scrutiny as to whether Marx could manage a 'reduction' of the kind Hegel had to leave undone. In other words: Is there a theory of Number in the Marxian corpus that allows for consciously performing a process of counting the nodal ratios, or that makes possible a practice of checking the amount of exemplars of ratios standing in 'opposition' to the substrate?

As concerns the genetic side, Marx has never produced such a purely philosophical oversight. However, there is no reason why he should refute the Hegelian theory of polemical actions of the Being-for-self. Time and again, he combines his concept of 'capital' or of 'the capitalist' with the terms 'für sich' or 'fürsichseiende', not least in connections regarding the frivolous-polemical capitalist's insistence on measuring all of his 'productive" capital against the surplus value; that operation yields the ratio $s : c + v$, while the only rational ratio for the surplus value, in Marx, is its place in relation to necessary labour or the variable capital, since no element in *c* is value-producing. For a Hegelian, it would be natural to call the inclusion of *c* in the ratio a 'rule', that is, as we have seen, an auxiliary, intermediate means to uphold a faltering measure process of social relations in the absence of clearly readable, rational measure.

It is also interesting regarding Marx's position in the matter, that his theory stands forward as one related precisely to *ratios*. In Hegel, this concept is a development of the notion of Number. The latter first appears in adding-ups of extensive *amounts*; contrariwise, the One, as *the unity*, is itself acting as *intensive* magnitude. The counting is subjective action, itself varying in its force of degree. When the One changes from a given natural number to a ratio, it retains the unity, but it also dirempts itself, and the ratio is a relation of itself to itself. A development like this, progressing to calculations with exponents and square roots, is a sign of the active forces of a being-for-self as a measurer. But still, these are only preparatory paces towards the discovery of the 'essence' of things. The following summing-up of 'The Measureless', leading over to the chapter 'The becoming of Essence', is, *mutatis mutandis*, valid also for the Marxian position:

> This unity as a mere arrangement (*Ordnung*) is still quite external, and although it shows itself to be an immanent specifying unity of a self-subsistent measure distinguished from its specifications, it is not yet the free Notion which alone gives its

It should be added that the category of being 'qualityless' in Hegel is appearing only for the categories Being-Nothing-Becoming in the beginning of SL, which in this article has been compared to the Marxian category of 'absolute poverty'. If this latter is the term that should be compared to 'abstract labour', I would rather discuss in another connection.

> differences an immanent determination: It is as yet only a substrate, a material, and for its differentiation into totalities, i.e., into differences embodying the nature of the unchanced (*sich selber gleich bleibenden*) substrate, it is dependent solely on the external, quantitative determination which shows itself at the same time as a difference of quality.[1168]

In exploring the dynamics of the double negation as a double consumption (see *Grundrisse*) we have reconstructed some epistemological implications, but also the production of a Nothing, a point of self-sublation of negations, which serves as a neutrality; the product of the unity of consumptions was such a neutrality in the form of a finished use value. The neutral points along the road just preproduce the oncoming neutral product, inasmuch as the latter – again according to Marx – actually 'existed ideally'.[1169] It was not simply anticipated (as in Kant), but actually had a being before its reality.

Now, let us remember that such *time-moments* ('*Zeitmomente*') as 'ideal existences' in our present field of reference are products whose immediate affiliation is a disjunctive predicate. The act of cognition parallel with the labouring acts thus posits (caused by the capital relation) a use value as a joint in a disjunction – be it as a particularity or as an individuality (the Lugarini amendment). Consequently, the immediate producer (the worker) exerts a power which is the substrate, and he is, in an immediate fashion, conscious of this –that is conscious of having exerted the power of mastering the thing. This thing is then immediately posited as a joint in a nodal line, and to this extent the nodal line and the substrate are identical. The latter, the 'common substrate', is now established, as we heard.[1170] The real subject awakens to consciousness in the generation of the thing as being in a possessive unity (of commodity guardians), demonstrating his power over things, and being cognising, recognising and cognised and recognised.[1171] But this subject is just as much the active substrate (living labour) itself.

We have to do with material entities that directly appear as measure ratios. Consequently, if we turn yet again to a Marxian illustration, we are at a point where the genesis of money appears, so that the movement has turned into a circulation, where for example '...the two transactions M—C and C—M appear here just as joints (*Glieder*) of a chain, because in M,

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[1168]Hegel 1969, pp. 373–4; Hegel 1970b, p. 445.

[1169]Marx 1976b, p. 284; see Marx 1968a, p. 192. '... *schon ideell vorhanden war*'. This has something of a bearing on the character of Marx' materialism, a point that cannot uphold us here.

[1170]Again, Hegel 1969, p. 375; 1970b, p. 446.

[1171]This structure should then be in perfect harmony with Hegel's model of self-consciousness in his *Phenomenology* chapter on lordship and bondage.

that is in the gold, a commodity looks just like another, and because in gold one cannot recognise if it is metamorphised iron or metamorphised wheat'.[1172]

There is an 'absolute' indifference at hand; but this indifference is a result of concrete negations, Hegel says. So it is still a difference, and it means specifically: a difference between substrate and measure-ratios.[1173] These latter are carried by materials, different from each other. The different materials are having the same substrate as regards quantity. And furthermore: they are all metamorphisised and therefore simply qualitatively identical). Let us return to Hegel, regarding what he says of *die Indifferenz* and its contents at this point:

> … at first it is essentially the merely quantitative external difference which is present in it; there are two distinct quanta of one and the same substrate which in this way would be their sum and therefore would itself be determined as quantum. But the indifference is this fixed measure, the implicit, absolute limit (*ansichseiende, absolute Grenze*) only in relation to those differences in such a manner that it would not be in its own self a quantum or opposed in any way, either as a sum or even as an exponent, to other quanta whether sums or indifferences. It is only the abstract determinateness which falls into the indifference; the two quanta, in order that they may be posited in it as moments, are variable, indifferent, greater and smaller relatively to each other. Bounded however by the fixed limit of their sum, they are related to each other not externally but negatively, and this now is the qualitative determination of their relationship. They are consequently inversely proportional. This relation is distinguished from the earlier formal inverted relation or inverse ratio by the fact that here the whole is a real substrate and each of the two sides is posited as having to be itself in principle [*an sich*] this whole.[1174]

Hegel has here analysed the concept of indifference, and deduced what kind of ratio might correspond to it. That ratio in question has no longer a provenance from any nodal line. There is no need for a comparison between ratios. The main point is that there cannot exist a ratio in such an indifference if the quanta in the ratio were not simply indifferent to each other. Qualitatively they remain selfidentical; but quantitatively, they may vary freely, but their limit is absolutely fixed and therefore indifferent to them.

[1172]Marx 1972, p. 75.
[1173]Here, see especially Carlson 2007, p. 284.
[1174]Hegel 1969, p. 376; Hegel 1970b, p. 447.

What we have to do with, is the climax of the whole sphere of Being, effectuated by the transition from Measure to the sphere of Essence.

7. The fundamental inverse ratio

This definition of indifference in Hegel corresponds nicely to the Marxian 'value', since it is the form of revelation of a totality of creative negations. In the concept of capital this reaches its summit, since capital is a 'moloch' (Marx), appearing materially as an enormous 'immense collection of commodities': No kind of use value is alien to it.

In its *becoming*, this value, in the guise of capital, arises inside a given section of the nychtemeron: In the course of the working day. It has been shown that the organization of this time section, especially in the adequate form it acquires in capitalism, the inverse ratio of factors, gives a clue to the understanding of that social formation. This holds especially when its length is regulated by law, which means that the inverse character of the ratio can be regarded as securing a permanent rate of exploitation.

The working day has been presented like this, as valid for the aggregate of capitalist exploitation inside a nation:

‘necessary labour’ ’surplus labour’
0----------/----------8
V S

The rate of exploitation is *S:V*, that is, surplus value on variable capital. The length of the section is set at eight hours, and the rate of exploitation at 100 per cent, just to illustrate.

There is an absoluteness here that justifies the term 'absolute surplus value': Namely, that no worker is allowed to get inside the factory gates, that is inside the depicted time section, without having signed a contract that forces him to create more value than what is necessary for his own livelihood. He is bound to create surplus value in addition, and that requires surplus labour. We have seen that provided that capitalist production is present, the ensuing ratio can be said to exist up to the point where the physical survival of the worker is threatened, and that an original revolutionary pressure from the working class tends to press it back, and then keep it within bounds. In this sense, the centrality of the rate of exploitation for the survival of the whole of society is affirmed.

The historical turning point which transforms capitalist production into a *combination* of relative and absolute surplus value brings with it that the tendency to prolong the working day is no longer a leading principle. Instead, the establishment of an absolute fixity in this fundamental inverse ratio implies, paradoxically, that the mode of production now has its fulcrum in the shortening of that part of the working day that is consumed by the worker's necessary labour. As to the structural difficulty which this brings with it for capital valorisation, it is noteworthy that as soon as the rate of exploitation is more than one (implying a technological level which almost certainly has been reached ages ago in Western capitalism), the costs of investment that can cause a certain relative rise in productivity, will rise more and more sternly:

Suppose an average working day of 8 hours. Say that the average necessary work in a national industry is 3 hours, and that a rise in productivity by one third takes place to a cost of X. Then we may have before us an average necessary working time of two hours. Still, the value gained by the capitalist has in principle risen from 5 hours to 6,that is with only one fifth. Such simple examples are employed by Marx in *Grundrisse*, just to illustrate the general difficulty an innermost contradiction of capitalist production.[1175] The conditions of valorisation are constantly apt to be progressively more costly, despite counter-acting tendencies. In modified forms, these problems will accompany that production, and they will never lose their character of constituting its primary contradiction.

It follows (undoubtedly, one would tend to say) that it is here that we find the background for Marx's hints to the effect that considerations following a reading of Hegel's *Logik* led him to alter completely his 'ganze Lehre vom Profit'.[1176] Also, it should be kept in mind that Marx again and again insists that while the profit rate $s : c + v$ is an irrational measure, only $s : v$ is rational in the required sense.

In Hegel's thought, the inverse ratio can be illustrated by a quadrat root, such as 5^2 =25, where the exponent, as a sign of the irresistible being-for-self, represents the affirmative infinite. The two numbers, 5 and (multiplied) 5, or the new reciprocal relation they might acquire, in so far as they stand for substances (such as 'value') capable of passing over into each other, cannot abandon their two-ness altogether. However strongly one of these factors of the ratio may dominate, it cannot go across a limit to make the other evaporate. The two can only put pressure on each other infinitely. Here, it is a social relation that persists, no

[1175]Marx 1976b, pp. 333–41; 1968a, pp. 239–47.
[1176]Marx 1965b, p. 260.

matter how much, or how little, the one might steal from the other. No reformism can prevail.

In our case, the disjunctive joints in the value forms II and IV were the first exemplars of such a ratio. For there, we are safely brought outside of the simple Form I, where the measure (in the predicate 'coat') did not consist of any further (comparable) ratio at all. The ratios that then followed in a series of spurious infinity were all indistinct measures, where the measurer could not even be sure if they were measured according to their quality or according to their quantity. Actually, it was only the collective '*gesellschaftliche Tat*' that presented a viable solution here, by searching up a money commodity.

In principle, or *an sich*, the partition in (v + s) was there from the beginning, but then as belonging to a net product which was not separated from values of the means of production (c), i. e. materials. Each disjuncted joint was dirempted in this way. Because of the presence of all these parts in the form of *produced* commodities (linen, coat, tea, coffee and so on), the general, 'absolute' indifference was missing. The commodity composition is always $c + v + s$. The problem did not lie in the fact that the factor c reflects material commodity-bodies, for so does even the net product (v + s). Rather, the point is that the inverse ratio is to have its content in *living* labour. It is valid only as a continuous process, superseding, transcending, *aufhebender*, cognising in its consumptive activity. In the disjunctive heap, to the contrary, we have to do with commodities that (in the capitalist case) can be partitioned in c, v, s, while these do only reflect dead labour.

Hegel, in his justifying of the overall significance of the inverse ratio as an explanans of universal forces, underlines that any measurer is free to step forward with additional theories, but that they will be unable to interfere with the movements defined by that ratio: Neither side can achieve 'an indifferent, independent subsistence in the face of the other, a subsistence supposedly imparted to it by a more (*was ihr durch ein Mehr sugeteilt werden sollte*).[1177]

This underlines the point that the unique ratio does not only have the sovereign capability to demonstrate the cohesion between measures in the economy at large, but even the moving forces,that is class forces in the system. Illustrations are legio, as is the profit rate (cf above), which, despite its real importance for capitalists, does not reflect immediate action of living labour.[1178]

[1177]Hegel SL p. 382; WL I, p. 453, see also Carlson 2007, p. 289.
[1178]See again the works by Bortkiewicz, Sweezy, and for example Carchedi and others.

What Marx calls 'abstract labour', is the abstraction of this activity, which comes to the surface in acts like that of *naming* these sections of the working-day, partly *s* for surplus value, partly *v* for variable capital, indicating that the sum symbolised by *v* is the only varying part of capital,that is the source of capital's variation by a surplus value. As we saw in the beginning of this article, value has to be defined by invoking living labour, that is labour power. The weight and seriousness of this point comes to the fore here.[1179]

In Hegel, it is the 'absolute indifference' that has taken over; such a result is just what should be expected at the end of the Doctrine of Being; as we know, this first part of the *Logik* starts with the absolutely indeterminate, immediate Being – which is no less than *pure thought*. After some introductory sections, Hegel then shows that this indeterminacy,that is indifference, must be a result of certain determinate negations. He then reconstructs these negations and their functions, and after strenuous work all through the volume he can deliver the result: the initial indifference reconstructed. This indifference is therefore logically justified and even displays itself as a moving force for the string of developing logical thoughts and concepts.

It seems that Marx's way of structuring the basic thought-forms of capitalist society and their genesis is closely related to the Hegelian way – or at least that such a structure is described by him. In some reflections on 'The exchange between capital and labour' in the *Grundrisse* we read:

> Labour posited as not-capital as such is: 1) not-objectified labour [...] conceived negatively (itself still objective; the not-objective itself in an objective form). As such it is not-raw-material, not-instrument of labour, not raw-product: labour separated from all means and objects of labour, from its entire objectivity. This living labour, existing as an abstraction from these moments of its actual reality (also, not value); this complete denudation (*Entblössung*) purely subjective existence of labour, stripped of all objectivity. Labour as absolute poverty: poverty not as shortage, but as total exclusion of objective wealth.[1180]

I find that the best interpretation here is that Marx presents the historical circumstances under which the thought of an indetermined immediacy can root in a society. While it is all too common amongst his followers to describe his view of the proletarian as a being who is

[1179]By all means, this should not be taken as a justfication of a thesis to the effect that abstract labour is simply labour as physiological acts. See for example the main thesis in Carchedi 2009.
[1180]Marx 1993, pp. 295–6, or Marx 1953, p. 203.

conscious of his expropriation from the means of production (and on the brink to make a payback), we here get quite another picture: Namely, of a person who has no conceptual ties to the means of production at all, being separate from them, and existing just as an abstraction within abstractions. This is virtually the same as a thought of pure being or of pure nothing; and since the logical possibilities inherent in such a being are adequately portrayed by Hegel, we may – from our historical point of view – easily adapt such a logic to the concept of value, an entity of indifference, if ever there was one.

With the indifference of value, its homogeneity follows. Since value is constructed through labour and is an expression of labour, abstract labour fills both sides in the ratio; their source is one and homogeneous, but they appear as already distributed between antagonist parts:

> This is the occasion to draw attention to a moment which here, for the first time, not only arises from the standpoint of the observer, but is posited in the economic relation itself. In the first act, in the exchange between capital and labour, labour as such, existing for itself (*für sich*), necessarily appeared as the worker. Similarly, here in the second process: capital as such is posited as a value existing for itself, as egotistic value (*selbstischer Wert*), so to speak (something to which money could only aspire). But capital in its being-for-itself is the capitalist. .... [a] relation of production which, reflected in itself, is precisely the capitalist. ...[...] ... also the individual worker can cease to be the being-for-itself [*Fürsichsein*] of labour; ... As a worker, he is nothing more than labour in its being-for-itself.[1181]

In the special context we have now, worker and capitalist may very well be considered as character masks for a *Fürsichsein im Masse*. That only means that such a Being-for-self is conscious of an antagonism, has a proper consciousness of work and measure, but no adequate consciousness of any need to change their positions – however reciprocally 'polemical' or *selbstisch* they might be.

That all economy dissolves itself into economy of time is simply true; a socialist society will certainly have good use for knowing some ratios about the working population – such as how long their working days are, how much of it reflects individual needs, how much the needs of local communities and families, and so on. But in a non-capitalist community, there is no need for rigid forms of division of labour, or for rigid economic partitions of days and nights.

[1181]Marx 1993, pp. 303–4, or Marx 1953, pp. 210-1.

As Marx says, it is true of the capitalist order that 'society's free time is produced through the production of the unfree time'.[1182]

Prima facie, one could be apt to believe that a worker's time is simply constituted as 'worktime' and 'free time'. But this is not the case. When a worker sells his labour power, the 'time-cost' for the reproduction av his power is taken is anticipated and included. The whole of the classic political economy from the days of William Petty believed that wages had a 'natural level' which implied that the worker's family could survive so that procreation of the workers' species was possible. In this element there is also included the time it takes to restitute the worker's labour power after every work period.

When the worker has been functioning his, say, eight daily hours, and then has been recreated at home, he may actually have spent twelve hours in the service of capital. It is not before this point in time that one meaningfully can speak about a possibility of freedom for the individual. Up to this point we live in what Marx calls the 'realm of necessity'. Something parallel will be the case in most societies.

Our conditions inside this realm naturally will be considerably improved as soon as the yoke of capital is thrown off. But necessity itself will always remain, because material production must go on. Marx's concept of freedom is far away from Kant's abstract representation of a free morality beyond the causal law. It lies closer to Spinoza's view that freedom is insight in necessity. But it even transcends the latter. Spinoza considered man a piece of organic mechanics. Marx, on the contrary, believes that the realm of necessity can be used against itself – namely, that science and technology liberate men by reducing the mechanical pressure of necessity.

'Society's free time is produced through the production of the unfree time': This sentence includes a *tendency*: It is a consequence of intensification of time. Marx wrote that it is only at a higher level of social production that 'the tendency appears that *replaces* extensity with *magnitude of degree*'; and, he added, it is only through the latter that 'there is created free time for the worker'.[1183]

[1182]Marx 1976c, p. 168. It deserves mentioning here that I regard the viewpoints of Rubin (see Rubin 1973, pp. 156–8) on Marx's intensification of labour as obsolete. That the latter drags the theory on measuring values through degrees into his theory of freedom, underlines the wider significance of his theory of the measure of value. Besides, Rubin contends that the fact that Marx lets all intensive labour count as extensive if intensity is equal in all branches, 'strikingly testifies to what extent Marx subordinated the properties characteristic of labour from its physiological aspect under the properties of a social character which play a decisive role in the social process of distribution of labour' (Rubin 1973, p. 156). But it is difficult to draw such a conclusion as long as Rubin does not make any attempt to analyse the structure that makes labour's 'physiological aspect' capable of taking on the form of extensive time. Not to speak of its function in competition on the world market.

[1183]Marx 1982b (pp. 1909 and following). Italics added. See also Sandemose 2006.

Today more than ever it is the case that 'the continuous activity of the individual is bound and conditioned by the activity of the whole'. But only the actively stultifying forces can seriously believe that this whole, this collectivity, is something else than the salvation of the individual, the presupposition for a liberated activity. For this activity it goes without saying that there is no total emancipation from necessity. Idle states never lead to freedom. They cannot but present us with a new picture of the empty shuttling on capital's treadmill.
Realists, on the other hand, can safely conclude in this way:

> It remains forever a realm of necessity. Beyond it begins the development of human power which considers itself an aim in itself, the true realm of freedom, which nonetheless can blossom only on the basis of the realm of necessity. Shortening of the working day is the basic condition.[1184]

8. Rounding up the bill

It is time to present some special difficulties that may have caught the reader's eye.

1. Some comments on the world market in general

One might believe that there is a long shot between the other themes presented in this article and the structure of the world market. That would leave a false impression, for what has been analysed from Section II on, is the structure of each and every capitalist or formally capitalist nation as they present themselves in strand so oning their mouths or bills out into their collective world water hole. There they lie with their currencies on the tip of their tongues, while each of them – as we saw in section I – 'become general equivalents in proportion to the development of the series of particular equivalents which constitute their spheres of exchange'.[1185] They are the trueborn progeny of the 'specific relative value form of the universal equivalent'.
Moreover, in his Chapter 3 of the first volume of *Capital*, Marx declares: 'When money leaves the domestic sphere of circulation it loses the local functions it has acquired there, as the

[1184]Marx 1968b, p. 828.
[1185]Marx 1972, p. 127.

standard of prices, coin, and small change, and as a symbol of value, and falls back into its original form as precious metal in the shape of bullion (*Barrenform*)'.[1186]

It is precisely here on the world market, Marx contends, that money gets a 'mode of existence … adequate to its concept'. It is now both anonymous and universal.

While the creation of a developed money commodity implied that 'value' had reached an existence on level with its concept, now money itself goes through a corresponding process of maturing. However, the different national coins and currencies, which are operating so to speak on the periphery of the world market, glancing towards the center and aspiring to be taken as equivalents of bullion, nonetheless have been developed on the background of widely different modes of production. That means that the basic measuring dynamics typical of any advanced, or 'real' capitalist nation –that is of any nation where the production of absolute surplus value is not *masslos* – is missing. The substrate 'value' appears mainly in its extensive mode, and intensification of labour appears as a marginal phenomenon, effectuated by whip and piece-work.[1187]

The 'real' capitalist society is a place where the capitalist mode of production prevails, with real subsumption of workers under capital, with high intensity producing free time in non-despotic ways and with certain adequate combinations of absolute and relative surplus value. Such a society corresponds to an order with a measuring system based on the inverse ratio of factors. Countries with a more 'formal', and therefore a more raw and fiendish capitalist structure, operate with basically weaker currencies, doomed to rest under an umbrella of hard, Western ones; they are left to accept their subordination on the world market. In fact, they are thrown back to the theory of Western early modern philosophers, which declared that while any community could aspire to be a bourgeois society with men welded together through a contract, all nations had to keep distance to each other on the world arena, having in common primarily a bellicose state of nature – indeed, falling 'back into its original form'. It becomes clear that while on the national stage there is an identity between money and circulation, nothing of the kind is possible as long as the existence of nation states prevails, combined with the intensity differences. A falling back to the original form means reversing to the level of monetary commodity exchange. Concerning the distribution,that is the 'circulation' on the world market, Marx writes in his passage on 'Weltgeld' in *Zur Kritik*: 'Gold and silver in the sphere of international commodity circulation appear not as means of circulation but as *universal means of exchange*. The

[1186]Marx 1976b, p. 240; Marx 1968a, p. 156.

[1187]'The whip of the slaveowner cannot create this intensity in the same degree as can the coercion of the capital relation' (Marx 1976c, p. 1740).

universal means of exchange act however merely as *means of purchase* and *means of payment* [...]'.[1188]

It was precisely on this background that Marx delivered his lengthy passage on the nature of foreign trade, quoted in our first section. Extremely poor non-capitalist nations that are involved in the world market, may in theory well survive there in their utmost poverty, as they once did as sources of drains of precious metals into the Western world through forced payment for drugs and other destructive injections into the East – like nowadays substances with life-long half-lifes into Vietnamese or Iraqi soil. Western opiates were just as precious as silver as long as you needed opium to get hold of that silver. Since Western states now are investing in armaments at record levels, something similar takes place: They are boasting their techno-military force as a surrogate for the omnipotence which big bullion reserves can no longer safeguard them in cases of economic collapse. International production of merchandise has reached such huge levels that losses can in our times be buffered by gold only to a small degree. The immediate threats of high-class 'defensive' violence aim at securing staples of commodities as well as sources of 'commodities' (to quote the term of the stock exchange) in the form of raw-materials still unescavated. Thus it happens that Nordic social democrat officials, after doing time in the sentry-boxes of their domestic 'welfare states',[1189] are regularly being moved on via some *polonaise* to the warfare *salons* of NATO headquarters in Brussels.

Even the poorest of nation states should – economically – be analysed with a basis in a concept of total or aggregate 'working day'. As we know from the analysis presented by Guenther Sandleben, it is Marx's view that 'the more intensive *working day* of one nation would be represented by a greater sum of money than the less intensive day of another nation'.[1190]

To the extent that capitalist nations of any sort – be they dependent on a lower or on a higher developed form of extraction of surplus value – are interacting on the world market, their international way of life is actually related to forces active inside the 'fundamental ratio', whether they ought to be called simply economical, or political, or social. Also, through their currencies, they are directly related to the prosaic 'form IV'.

2. Guardians: Prices on the tip of their tongues[1191]

[1188]Marx 1972, p. 125.
[1189][On the concept of 'welfare' see Sandemose 2018b.]
[1190]Italics added: see Marx 1976b, pp. 661–2; Marx 1968a, p. 548.
[1191] For the title, see Marx 1976b, p. 189; Marx 1968a, p.109.

Our investigation of the viable measures in capitalist society has shown that value Form IV, the specific relative value form of the universal equivalent, is like a keystone in the money system of every nation, regardless of level of capitalist development. This form was derived from the fact that every member of the disjuncted collectivity of guardians ('Form II': Marx's 'Durchgangsphase'), had the precious sense of self of being a universal equivalent, and thus was anticipating the concept of value proper. 'Form IV' is the logical development of this. Its relevance is all the more strengthened through an elementary reminder of Marx's analysis of circulation, where his theory of the concept of price is introduced:
To say that a commodity has a '*price*' is, for Marx, the same as saying that it expresses its value in the commodity that has been picked as money, that is in gold.
This last commodity, the gold, will therefore have no price in the strict meaning of the word. But of course, it will have a value expression, that is an outer expression for the labour laid down in it. Wouldn't that be the most adequate motto for the grandee guardian of the gold: 'Prices are for the *Warenpöbel*; but *I* have *value* in exchange for it'.
As regards its value expression, passages by Marx in his criticism of Ricardo's theory of prices in *Theories of Surplus Value* deserve to be quoted:

> The *price* of the commodity serving as measure of value and consequently as money does not exist at all. .... The relative value of money is expressed in the innumerable prices of all commodities; for in each of these prices, where the exchange value of the commodity is expressed in money, the exchange value of money is expressed in the use value [= the material] of the commodity.[1192]

The gold has an exchange value, say expressed in wheat. Let that the proportion be

1 ounce of gold = 5 bushels of wheat.

Here, 1 ounce of gold is worth the equivalent of the labour time that has produced 5 bushels of wheat. That is a way of saying that the value of the gold is expressed in the material called

[1192]Marx continues: 'Consequently, one cannot talk about a rise or fall in *the* price of money. I can say: The wheat-price [*Weizenpreis*] of money or its cloth-price has remained the same; its cotton-price has risen, which is the same as to say that the money price of the cotton has fallen. But I cannot say that the *price* of money has risen or fallen' (Marx 1968d, p. 199; italics in original). Thus what we called the 'exchange value' of gold, might actually get a bastard-price nomination.

wheat. Let us say that both these commodities have been earlier set at = 20 yards of linen, that is in Form III.

If so, they are both accessible to take part in Form IV, that is the relative value form of the universal equivalent. This 'relative value form' consists in those 'innumerable' commodities whose prices are mentioned in this piece of polemics,[1193] which, by the way, is targeted at David Ricardo's 'On an invariable measure of value'.[1194]

The methodical point here is that Value Form IV (and III)[1195] shows that the fate of the universal equivalent, even as regards its specific form as money, does not escape the logical form of the judgment which is Marx's theme in his Chapter 1. That is, the disjunctive form of the collective of guardians is always retained in the system. Introduction of money, and therefore of a regular system of prices and of circulation does not change this. That is to say: A capitalist system cannot change it.

As for the actual market price of gold, it is usual to suppose that it oscillates around a production price, paid to a capitalist seller. However, the right thing probably is to say that it oscillates around its value. For in all probability, the organic composition in the gold industry is below the social average, while a ground rent enters the picture (caused by the monopoly of landownership). An absolute rent is so to speak warranted.

An effective outcome of the market competition, that in this case secures such a reasonable market exchange value, is hastened by the national coin-circulation-currency system, which delivers the basis for calculation of diverse product prices, that is prices for products that are derived from portions of labour in the use values of those commodities. Money is so to speak the Marxian version of the Individual, implying a criticism of the Hegelian thought that the subject can restless step out of the realm of necessity. It has a permanent limit, the continuous reference to an infinite relative value form. It does not allow any completion of the commodity series in circulation. It is only as a member of the commodity series of the realm of necessity that it joins a real community.[1196]

> Although invisible, the value of iron, linen and corn exists in these very articles; it is signified through their equality with gold, even though this relation with gold exists only in their heads, so to speak. The guardian of the commodities must therefore lend

[1193]Marx 1968d, pp. 187–200.
[1194]Ricardo 1821, pp. 41–6 (Section VI in Chapter I).
[1195]It is important to note that these denominations are used in the first edition (1867) only.
[1196]See Sandemose 1973a. The 'two conditions' referred to in the title are 1) 'the commodity', 2) 'necessity'.

> them his tongue, or hang a ticket on them, in order to communicate their prices to the outside world.[1197]

3. Measureless Marxisants

a.

The structures discussed under the preceding point pose no problems at all, as long as one understands that while money cannot have a price, it is not necessarily all gold that functions as money. When states buy gold for hamstering in Fort Knox and other depots, they are buying gold at a market *value* in the same manner as is a jewellers' industries (and so on). The term '(exchange) value' (and not 'price'), ought to be retained in both types of cases, since the gold that is present on human hands over the globe to some extent can shift its occupation, for example in theory being sold from Fort Knox to a producer of electronic hardware.

b.

It follows that when we are discussing the shift from pre-capitalist commodity production to capitalist society, that is *from* markets where products are sold in average for sums around their *values*, to markets with so-called production prices, that is prices that take heed for competition between capitalist industrial *branches*, no especial problem as regards gold measuring of values or employing gold standards of prices are in the picture. The so-called 'transformation' problem is based solely on a confusion between the two last-mentioned functions of gold, and specificly on a nonsensical misunderstanding of the function of price-standard materials.[1198]

c.

In Carrera 2019 there is to be found a samples of problems that arise if one seeks to employ the above Marxian critique of Ricardo's 'On an invariable measure of value' without a clear understanding of Marx's analysis of the value forms;[1199] or more specificly, of how Form IV leads directly over to a money system. On the first volume of *Capital*, Carrera writes, with full justification:

[1197]Marx 1976b, p. 189; Marx 1968a, p. 109.
[1198]See Sandemose 1976, pp. 189–91. Sandemose 1973a, 2004, 2016, 2018a.
[1199]Ricardo 1821, pp. 41–6 (Section VI in Chapter I).

> [i]t becomes evident in Volume I that total social capital is the true subject of the process of accumulation and that individual capitals are concrete organs of its unitary movement. Nevertheless, thus far individual capitals appear as lacking any determination that immediately rules their movement as individual organs and that allows them to recognise themselves as such (p. 5).

Furthermore, he contrasts this with a situation where an average profit rate is extant:

> Thus, in the case of the transformation of values into prices of production, the point is to develop the necessary determinations of the quantitative expressions of its most concrete forms as commodities become qualitatively recognised as the products of labour alienated in capital (p. 16).

This means nothing less than that Carrera holds that the average rate of profit (ARP), is the same object of consciousness which we have met as ’the Being-forself in measure’. It is what corresponds to Marx’s 'Capital as measure'. This is, therefore, what a Marxist would consider the necessary form of the subject called ’total social capital’: It is able to recognise itself as such.

Also, Carrera’s view is compatible, as we know it should be, with the view that gold has a production price. On the other hand, he also contends that 'the surplus-value extracted in the sphere that produces gold enters the *construction* of the general rate of profit as any other' (p. 11), which is erroneous, for gold belongs to the excavation industries, that is is protected by the monopoly of landownership. For that reason, its market price will be formally equal to a price of production after rent being paid, but even that is only because the gold capitalist must adapt himself to the exigiencies of the ARP. Which means, in its turn, that the recognition which is active here, is not fully in the form of Being-for-self. This latter perfection is reserved for purely industrial capitals.

Also, further problems will arise for Carrera as regards his theory of measures. His view is the following:

> The point is that, albeit gold is unable to express its own value under the form of a price of production, its concrete capacity to express the value of the rest of commodities by functioning as their general equivalent is affected by its concrete determination as the product of capital. As such, its exchangeability is mediated by

> the divergence from the social average organic composition and turnover rate presented by the capital that produces it (11).

It is enigmatic what such a 'mediation' should consist in. Out of thin air, Carrera constructs a difference as regards the functions of measure of value in simple commodity circulation and in capital circulation respectively. (In Sandemose 1976, pp. 156–75, I found it necessary, as a safeguard against Sraffian counterattacks, to show that no such differences could be presupposed – least of all from Marx's texts.) The general exchangeability of products is developed in the value forms I to IV (the 1867 notation). Such a form-property makes them immediately measurable in gold. Their exchangeability is then done for: They are not to be exchanged against gold, but the gold is to show a quantum of itself to represent the value of the commodity; thereby, the commodity is circulating and positing the gold as money. (Therefore the chapter title: 'Money or commodity circulation'.)
As already hinted at, the composition of the gold industry has nothing at all to do with the process of transformation of commodity-values to production prices. In his polemic against Ricardo's tract on 'Invariable measure', Marx says as much explicitly. He criticises Ricardo's theory that the relation between profits and wages in an industry is dependent on the composition of capital in that industry as compared with the composition in gold-producing mines. And he argues as follows:

> … here we have got to do with Ricardo's false presupposition that money, inasmuch as it serves as means of circulation, is exchanged as commodity against commodity. [On the contrary:] The commodities are evaluated in it before they circulate.[1200]

Consequently, the total set of production prices which is developed through a given industrial circuit, may lead to a new relative price of the gold material. The total sum of prices will then either rise or fall. But the relation between commodity prices will not change. What changes, is only the purely nominal total price level.
The upshot here is that Carrera blows up his own position. On the one hand, he defines the ARP-constellation as the one that makes possible a capitalist subjectivity capable to act as a 'global total social capital'. On the other hand, his definition is definitely wrong, and shows itself to be practical (*mutatis mutandis*) only inside a given nation or nation-group.

[1200]Marx 1968d, p. 198.

By Bortkiewicz, the idea of the influence of the composition of the gold industry led to the contention that the values of commodities for capitalists' consumption do not enter into the construction of the level of the ARP. This error, adopted by both Carrera and his opponents, is an absolute prerequisite for the well-known Okishio 'proof' against Marx's thesis of a tendential fall of the ARP. This tells us something about the importance of the issue!

d.

Worth mentioning is also the frequent contention that Marx's theory of prices implies that a commodity price is simply a certain amount of gold. Such a view can actually be called vulgar materialism. A price is a *representation* or an image of a certain amount of gold. This way of thinking is one of the many elements that connects the Marxian way of thought with modern, progressive bourgeois philosophy. And as we have seen already, it goes together with the view that a presentation of a product actually can be said to have existence, and a priority, over the actual material product. However, in all such cases, the presupposition is that the materials in question actually have a real objective being.

With this way of thinking, Marx is capable of employing – and at the same time of sublating – modern theories of presentation ('philosophy of consciousness', '*Bewusstseinsphilosophie*', included its form in Kant and Hegel). This is not the place to present agitatorial disclosures to this effect. But the conspicuous, or rather even scandalous degeneration of the intellectual level of the Marx-commentariat should speak for itself.

e. An important aspect involving difficulties is the common misunderstanding that the proportions inside the 'fundamental ratio' are a function of the aggregate prices of the commodities making up the use value side of V and of S respectively. But this ratio is a priori to every price formation.[1201] That a blunder is involved in the view mentioned, is all too clear. It follows naturally from the misunderstandings that go together with the 'transformation problem' since its adherents as a rule presuppose that the ratio between values will change as it may be transformed to a ratio between prices.

4. International competition and integration

[1201] See Sandemose 1976, *passim*, and the appraisal of the corresponding method in Dahlkvist 1978, pp. 159, 160, 184.

On the world market, no integration can take place abstracted from competition. This is valid also for events on the domestic market. In Marx, well-known examples are concentration and centralisation of capital. These results are, on the other hand, condensations that are rarefied in their turn, since they are connected to especial structures of material commodities in property relations that are gradually changed in the course of technological progress. This is made possible by a free competition that includes homogeneous conditions for all capitalists as regards labour productivity and intensity. The argument delivered in this article, which shows how the structure of *time* makes it possible to alternate between forms of measures for realised value magnitudes, confirms this.

However, it is clear that this confirmation does not mean that levels of labour intensity in different cultures, or different nations, can easily be adjusted to a common level. As we have seen already, it may well be that relations of property, especially amputated private property rights, that is 'feudal' or 'Asiatic' rules that are in an intermediate level, but not yet transformed to wholly bourgeois rights, represent a major obstacle. In analysis of relations like these, one should beware of excessive naivety amongst scholars. For example, if one is investigating areas where a structure of action prevails which is regarded as corrupt in more developed territories, it forbids itself to think that it is characterised by an average capitalist intensity. If, as is not infrequent for example in Southern Italy, it is accepted as honourable to take public employment on basis of family ties, it should be expected that there also prevails a mafiotic level of labour efficiency. Or, likewise, on background of the 'Greek crisis' of later years, it would be childish not to seek direct causes in the heavily petty-bourgeois structure of ownership in Greece.

On the same note, the backwardly level of industrial labour efficiency in Eastern Europe will, in the face of those countries' membership of the Euro-zone, lead to an artificially low value of the 'euro-mark' or even the 'euro-franc', since the exchange rate of the Euro is a function of the average labour intensity of the *whole* eurozone. The productivity of labour, being higher in France and Germany, gives these national areas good reason to press down their currency, a movement being favoured by the relative cheapness of the euro.

Even between distinctly capitalist nations, such as these latter, one must presume that differences of intensity can be significant. The very fact that the EU originally rightfully could be called an alliance between German industry and French agriculture, points to strong structural differences. The larger the mass of largescale industry in a country, the larger is its stock of labour easily accessible to relative intensification. In semi-international conditions such as in the EU today, the discrepancies between national areas are tried overcome

through agrarian subsidies to peasants and lots of other transfer systems which tend to veil the fundamental relations.

But even such a community of interest is no hindrance against troubles in other fields. It is clear that imports from Germany to France are relatively costly for France; in the transaction between to 'eurozone'-members, it is not the exchange rate of the euro that comes into the picture, but the actual mass of labour that is transferred for one euro. If five barrels of wine are produced by 100 000 French labour hours, it may be sold for a sum of euros that corresponds to, say, 80 000 German labour hours. The net surplus of 20 000 German hours may represent both a surplus of productivity and a surplus of intensity, and we might even conjecture that this corresponds to the average plus of total labour efficiency in Germany in relation to France. This latter is worth pointing out because factually and statistically, it is close to impossible to distinguish the share of productivity surplus from a share of intensity surplus. (Statistics on labour productivity in bourgeois research includes intensity.) Rather, it is always a question of a realistic analysis of the differences of national economies. In fact, the question is a logical one: If 'labour time' is correctly analysed by Marx (as regards both extensive and intensive time, plus the possibility of their interrelation) then both those two factors have to exist. Also, with a change of note, it must be accepted as obvious that the alleged integration on the common European market has not at all been instrumentative in straightening out traditional national discrepancies.

In Europe as elsewhere, differences in intensity usually have deep historical roots. To remain with the above example, in France a relative backwardness was created because of the effectiveness of the bourgeois political revolution after 1789. Virtually all possible anti-feudal reforms succeeded, and a bourgeois democracy based on a large class of peasant smallholders came into being. Since this basis has existed to our times, French large-scale industry is modest, concentrated in Sector II, and industries have vegetated upon generating means of production for agriculture. In Germany, on the other hand, soil quality in relation to the level of ground rents and to product prices are much lower, making ownership concentration more developed, and fostering a big urban and semi-urban proletariat. Roughly, the German economy is extremely open to investments in technical means that are highly adapted to suck intensive time – and all the more surplus value – out of the labour process.

Intensity differences is among the heaviest of economic forces. However, they also include the same pinciple that we met in the first section, where Marx pointed out that

> The same may obtain in relation to the country, to which commodities are exported and to that from which commodities are imported; namely, the latter may offer more materialised labour in kind than it receives, and yet thereby receive commodities cheaper than it could produce them.[1202]

As long as this variant (reminiscing of Ricardo's thesis of 'relative advanages') is in place, we still are within a world where a term like 'international division of labour' is feasible. For under such conditions, the poorer country can still get a net surplus through the transaction, and eventually use such a surplus to industrialise and tighten the gap between its own intensity and the other nation's. Such a kind of circulation, however, is not a necessary result. There is a kind of 'imperialism of trade' which rather leads the poorer nation into a vicious circle where its exports take the form of an 'outsluicing' of indigeneous labour. Foreign trade may be monopolised by parasitic classes (whose existence follows naturally from Asiatic political structures).

Trade between a capitalist and a patrimonial currency area, that is a non-capitalist area or nation, is an act of circulation which *opens for* continuous sluicing-out of labour time from the latter type of area to the former type, where the values of the products of the former type result from labour connected to interspherical as well as intraspherical competition, while the values of the products of the latter result from labour connected solely to intraspherical competition.[1203]

By contrast, a transfer of labour time between two capitalist nations implies that the goods (in value form) lost in one context can be won back in the next one. To give a more concrete description: A country D which loses labour time in buying commodities of type x from country C, can here without grave difficulties use the x in its own industry to create a product y, with a more intense process than the average in C (D's average national intensity simultaneously being increased as an effect), and sell the y to C (or to others) with a regain of labour time. Here, there is real economic interaction.

The crucial characteristics for such societies in this regard is firstly their interspherical competition, and secondly the existence of a capitalistically generated price for land and soil, resulting from structures related to the said competition, and precluding the general possibility for working people to return to rural conditions and landed property.

[1202]Marx 1968b, 248.

[1203]This is a definition presented by the author in Sandemose 2012, p. 756.

The situation also makes it relatively, and continuously, more difficult to initiate an industrial take-off. This difficulty, however, is a variable which is also dependent on the balance of class forces in the patrimonial area. Even alongside a continuous loss through out-sluicing, political forces may change the situation, for example, through a conscious socialist state power recurring to an economics of planning. On the other hand, as long as class supremacy persists, political pressure may lead to an economy of out-sluicing for the most diverse reasons. A patrimonial ruling class may import articles for conspicuous consumption, or commodities to accommodate immediate welfare claims from the masses, not necessarily to build up wage-workers‘ labour power, but for reasons of wasteful political prestige. All kinds of potlatch-induced motives may go together to produce disastrous results, as for instance in the case of Argentina and its repeated debt crises, where the government is shamelessly giving international capitalism full responsibility for the home-grown symbiosis of political paralysis and upper-class luxury consumption.

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From left to right: Isaak Dashkovsky, Nikolai Petrov, Vladimir Dokukin and Isaak Zvavich.

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